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ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

VICTORIA

B. C.

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ROYAL COMMISSION

ON

ENERGY

Hearings held at Victoria,
commencing Monday, April
21, 1958, at 10.00 a.m.

PRESENT:

Mr. H. Borden, C.M.G., Q.C.	-- Chairman
Mr. J.L. Levesque	-- Member
Mr. G.E. Britnell	-- Member
Dr. R.D. Howland	-- Member
Mr. L.J. Ladner, Q.C.	-- Member
Dr. R.M. Hardy	-- Member

COMMISSION COUNSEL:

Mr. A.S. Pattillo, Q.C.
Mr. Miles H. Patterson.

Mr. J.F. Parkinson	-- Secretary to the Commission.
Major N. Lafrance	-- Assistant Secretary to the Commission



APPEARANCES:

Representing British Columbia Electric Company
Limited:

A. Bruce Robertson, Q.C. -- Vice-President and
General Solicitor.

H.L. Purdy -- Executive Vice-
President.

John Davis -- Director of Research.

D.M.M. Goldie -- Counsel

EXHIBITS

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Take A
21/4
JF/p

Monday,
April 21, 1958.

---Mr. Commissioner Levesque was not present.

THE CHAIRMAN: Gentlemen, before carrying on with the hearings in Victoria, on behalf of the Commission I want to say how happy we are to be in Victoria, in this Pacific Province of British Columbia, particularly during this eventful year in its history. We are here to get facts and not to be provocative with anybody. We hope we can get a great deal of information from those who are going to appear before us here.

The first submission will be by the British Columbia Electric Company, followed tomorrow by Trans-Mountain Oil Pipelines, and then ACT Oil Company and, I understand, Westcoast Transmission, Mr. McMahon, wishes to make a statement to us further to the Calgary hearings; and then, also, the Prince George people want to give us some information.

Before proceeding today with the hearing, we are honoured by the presence of the Attorney-General of the Province, the Honourable Mr. Bonner. I understand he wishes to say a few words to us. Mr. Bonner, would you care to do that now?

MR. BONNER: Mr. Chairman and Commissioners, I do want to put on record, on behalf of the Government and the people of the Province, in



extending a very warm welcome to you and your fellow Commissioners on this occasion, being your first official hearing in the Province.

I am grateful, as well, to learn that yourselves and members of your staff will be free to meet members of the Government at our dinner this evening, and we look forward to the opportunity, not only to that social occasion, but to the conversation that will accompany it.

In thinking of the background of your hearings in this Province, I was directed in my recollection to the fact that only 2 1/2 or 3 years ago we had the opportunity to say something to the Royal Commission on Canada's Economic Prospects. At that time we devoted a considerable amount of study to the general question of energy and made a submission to that Commission in short form, which was subsequently backed by data. I realized it will have to be brought up-to-date for the purposes of your Commission, and I intend to do so.

It will be of interest, I think, from the standpoint of this Province to record that while at the moment we are a million and a half people in British Columbia, our studies suggest to us in a matter of 20 years our population will double.

We have been very fortunate in the development of not only our primary industry, but also of our secondary industry, upon which much of our



economy is now based, and the success in establishing of our secondary industry has depended, as it does in all modern industrial society, not only on the potential of energy but the availability which, for the most part, has been made possible by private enterprise.

However, the picture changes very rapidly. I was looking at some of the figures and I will repeat them here: with the projection of population of, roughly, 100 per cent increase in 20 years, we have had these thoughts in what the anticipated per capita consumption of energy in terms of coal equivalent to be 7.4 tons in 1953, which was the best advice we had three years ago to 21.4 in 1975. This is a 190 per cent increase per capita. In 1953 coal supplied 18 per cent of the energy of this Province; petroleum, 38 per cent; and it will be recalled, for the most part, that source of energy was imported; waterpower, 44 per cent. It is anticipated by 1975 coal will supply only 2.1 per cent of the energy; petroleum, 20.6 per cent; waterpower, 73.8 per cent; and natural gas, which is a new element in our economy, 3.5 per cent.

To show in consumption the total short tons of coal equivalent, 9,107,000 in 1957 and it is anticipated it will be 48,710,000 in 1975.

In making our projections on that information, we took certain basic facts into account. For



example, the figure of horsepower potential in this Province, which was reached 3 years ago, was said to be 25 million, and to show how rapidly the changes in this Province take place, I would advise you that since those figures we have arrived at, with the result of the exploration of British-Thompson-Houston on behalf of the Swedish capital Rocky Mountain Trench, hydro electric potential is 4 million horsepower in a very short period of time.

We have as well, in that period, been impressed by the rapidity of the natural gas industry brought into practical being by the opening of the Westcoast Transmission pipeline. We have also been impressed with the emergence of quantities of oil in the Province.

Endeavouring to supply basic material to the Commission, which the Government intends to do in a brief submitted next month, we must impress upon you that our figures change rapidly and always improve the picture.

It was not my purpose to go into detail this morning because that is a subject for another occasion, but I do want to impress upon you the warmth of our welcome, and we trust that your deliberations in this Province will be entirely favourable for us all.

THE CHAIRMAN: Thank you very much. I am sure the information the Commission has already received



in the limited number of hearings which it has been possible to have so far, what you say is very much in the minds of the Commissioners: that is, the picture is changing very rapidly in our country, and we are really just at the very beginning of a tremendous expansion in the oil and gas industry, which is an infant industry, relatively, in our country today.

MR. BONNER: That is right, sir.

THE CHAIRMAN: Now, gentlemen, I do not think we need the Terms of Reference to the Commission. We can do so if there is anyone who is concerned in the proceedings who would like to have them read. They were read into the transcript at the opening hearing in Calgary in February and, I take it, Mr. Robertson, you do not wish the Terms of Reference read into the transcript again?

MR. ROBERTSON: No, sir.

THE CHAIRMAN: Then, Mr. Pattillo?

MR. PATTILLO: Mr. Chairman, I understand we are going to hear today from the British Columbia Electric Company, and that company has filed and is ready to present a brief. I am suggesting that the brief be marked V-21, for the day of the month, and Exhibit No. 1, as the first exhibit of the hearings.

---EXHIBIT NO. V-21-1: Submission of the British Columbia Electric Company Limited.



I would also suggest, Mr. Chairman, that the spokesmen for the company proceed with the reading of the brief. I understand that during the hearings in Regina, at which I was not present, a slight change was made in procedure to that which we had followed during the month of February in Calgary. To try and improve on the informality Commissioners and others interrupted during the reading of the brief and asked questions which may occur at that time.

THE CHAIRMAN: Yes, Mr. Pattillo, what happened was this -- and perhaps I should explain it to the representatives of the British Columbia Electric Company.

At Calgary we were up against a time problem, very definitely, because the people who were submitting briefs from the organizations were unable to get them to us except in a few isolated instances until practically the night before the brief was to be dealt with by the Commission, and the only possible way to handle the situation was to have the brief read in extenso into the transcript and we adopted a policy, by and large, of not interrupting or questioning during that period.

In Regina we changed that procedure somewhat in order to save time and also to try to get those appearing before us to supplement the information in the brief a little more readily. We would



start reading the brief and then certain parts, where the Commission has had an opportunity of reading the brief, suggesting you skip from page to page and interrupting at any time and asking questions. That procedure seemed to be fitting, and I think we might adopt it here, also. I should explain that the brief, even though we do not orally read certain parts of it, goes into the transcript, so it is on the record.



MR. PATTILLO: I am not clear on this, Mr. Chairman, and I think perhaps we should bring this out because there are counsel present. Do you want to follow the same procedure of reading as we did at Calgary before, and if counsel acting for others other than the company in giving the brief want to have questions asked, they submitted the questions to us and we would determine whether we considered they were relevant or not and would either ask them ourselves or would direct them to proceed with the questions?

THE CHAIRMAN: We followed that procedure. It didn't arise in any concentrated form, but I think it is the only procedure we can adopt, Mr. Pattillo, and I think we should stick to that procedure.

MR. PATTILLO: Now, have we got this document marked, Mr. Patterson?

MR. PATTERSON: Yes.

THE CHAIRMAN: Exhibit W-21-1.

MR. PATTILLO: Perhaps the brief could be read now.

MR. ROBERTSON: Mr. Chairman and members of the Commission, this brief is signed by Mr. Purdy and myself who assumed the responsibility for it. When you have questions to put to us I think it would be best, if it meets the Commission's wishes, if Mr. Purdy or I, depending upon which of us knows more about the subject, were to answer the question.



Submission of
BRITISH COLUMBIA ELECTRIC
COMPANY LIMITED

APPEARANCES:

- A. Bruce Robertson, Q.C. - Vice-President, and
General Solicitor,
British Columbia
Electric Company Limited
- H. L. Purdy - Executive Vice-President
- John Davis - Director of Research
- D. M. Goldie - Counsel



MR. ROBERTSON: Description of the B.C.

Electric: British Columbia Electric Company Limited ("B.C. Electric") is the principal operating subsidiary of British Columbia Power Corporation, Limited. Itself and through its subsidiaries it generates and distributes electricity and gas, distributes natural gas, and operates trolley coach, motor bus and freight railway systems in Greater Vancouver, Greater Victoria, New Westminster and other important municipalities in British Columbia.

Details of the B.C. Electric's capitalization and operating results and statistics with respect to its services appear in the 1957 Annual Report of British Columbia Power Corporation, Limited which is attached hereto.

Scope of Brief: The B.C. Electric is directly interested in those sections of the Commission's terms of reference that deal with gas, water, and electrical energy; it is indirectly interested in the sections dealing with oil, coal and uranium.

This brief will substantially be confined to the matters of gas and gas pipelines. B.C. Electric will at the appropriate time present a brief dealing with water and electricity, and possibly with coal and uranium.

B.C. Electric's Gas Business: In Greater Victoria, on 31st December, 1957, B.C. Electric had



an L.P. - Air gas plant with a daily capacity of 2,700 Mcf of 1,000 Btu gas, 149 miles of mains, and 9,829 meters on line.

THE CHAIRMAN: Would you explain what an L.P. - Air gas plant is?

MR. ROBERTSON: L.P. stands for liquified petroleum, butane or propane. As I understand it in process, that liquified gas is allowed to be gaseous again and it is mixed with air and it is introduced into the mains and distributed in that way.

The number of therms of gas sold in 1957 was 2,688,029. For some years there has been under discussion the possibility of piping natural gas from the mainland, under the Gulf of Georgia, to Vancouver Island; the consummation of this project is by no means a remote possibility.

In Greater Vancouver, New Westminster and the lower Fraser Valley, on 31st December, 1957, B.C. Electric had a peaking plant with a daily capacity of 16,000 Mcf of 1,000 Btu gas, 1,541 miles of trunk and distribution mains for natural gas, and 72,600 meters on line. The number of therms of gas sold in 1957 was 48,481,260.

THE CHAIRMAN: Would you, again for the record, explain what a therm of gas is?

MR. ROBERTSON: Mr. Purdy will correct me if I am wrong. It is 100,000 British thermal units.

MR. PURDY: I think it is probably useful



to think of it as 100 cubic feet.

MR. ROBERTSON: Forecast of B.C. Electric's Requirements for Natural Gas: The following figures apply to the lower mainland only.

B.C. Electric's highest peak-day sale so far in 1958 has been 26 million c.f. An estimate of its requirements until the operating year 1 July, 1965 to 30 June, 1966 is as follows:

PEAK DAY GAS REQUIREMENTS

Volume in Millions of Cubic Feet

Operating Year	1957	1958	1959	1960	1961	1962	1963
	-58	-59	-60	-61	-62	-63	-64
Firm gas sales	26	61	81	102	123	145	167
Thermal plant	-	-	-	24	48	72	96
Unaccounted for	<u>2</u>	<u>3</u>	<u>4</u>	<u>6</u>	<u>9</u>	<u>11</u>	<u>13</u>
Total	28	64	85	132	180	228	276

Operating Year	1964	1965
	-65	-66
Firm gas sales	187	205
Thermal plant	120	144
Unaccounted for	<u>15</u>	<u>18</u>
Total	322	367

There is no allowance in the above figures for purchases of interruptible pipeline gas - and, of course, it is unlikely there would be any interruptible available on the peak day.

THE CHAIRMAN: By 1960-61 I take it that your 24 million of cubic feet for your thermal plants



is for one unit. What is the size of the unit?

MR. ROBERTSON: It is 157,500 kilowatts.

THE CHAIRMAN: And then the ultimate capacity of the plant by 1966 is six times 157,000.

MR. ROBERTSON: Yes, Mr. Chairman.

MR. PATTILLO: What is included in this phrase "unaccounted for"?

MR. PURDY: It is the difference between the quantum of gas read on meters at the points which my company receives the gas at Huntington and the sum of the reading on meters of our customers. In general it is fair to say that for every 100 cubic feet of gas that is metered at Huntington where we receive the gas we manage to read on meters of customers 95 cubic feet.

THE CHAIRMAN: Some gets away.

MR. PURDY: Well, a good deal of it is accounted for by the meters being at different temperatures. Some of it is lost gas in this way, but a good deal of it is not that; it comes from different conditions, largely temperature differences surrounding the meter reading.

MR. PATTILLO: Would you explain, Mr. Purdy, in connection with the present firm gas sales and the projection figures -- are those projections predicated on the increase in population, the increase in industry which you contemplate or are they based solely on the present availability?



MR. PURDY: No, the estimates are based on the assumption of population and industry growth.

MR. ROBERTSON: The service agreements of 18th February, 1955 and 3rd October, 1957 between Westcoast Transmission Company Limited and B.C. Electric (the making of which will be discussed later in this brief) will look after B.C. Electric's growing needs until 1963 or 1964. Such additional quantities as may be needed to supply the growth requirements of the lower mainland area beyond the year 1965-66 cannot be forecast with any degree of precision. However, if we assume that B.C. Electric's retail sales will continue to increase at an annual rate of 10% and make no provision for possible further gas needs in respect to the generation of electricity, we arrive at an estimate peak day demand of 450 million c.f.p.d. in 1970 and of 800 million c.f.p.d. in 1980.

Should B.C. Electric's system load factor average out at around 75%, the Company's cumulative 30-year requirements, starting in 1958, will be in the vicinity of 5 trillion cu.ft. In order to ensure adequate deliverability and also to allow for production losses, these requirements should probably be backed up with a proven reserve in the ground of between 7 and 8 trillion cu.ft. While this supply should look after the mounting



residential, commercial and industrial requirements of customers in the lower mainland area, it makes no allowance for such sales as may be made in the Interior of British Columbia by Inland Natural Gas Company Limited ("Inland"), or to possible users on Vancouver Island.

THE CHAIRMAN: Can we stop you for a moment? In forecasting those increases at an annual rate of 10 percent and getting up to your 800 million cubic feet in 1980 or 450 million cubic feet in 1970, how do you deal with the pricing factor? What I mean by that is, assume for the moment that the demand for gas increases, as your brief is pointing out, will not the price of gas increase, the cost of gas too.

MR. PURDY: The assumption behind this is that the price of gas will retain about its present relationship with competing fuels. For some considerable time the influences that are working on gas costs are such influences that would tend to reduce the cost of gas, and that is because of a much fuller utilization of considerable plants that we now have in the ground that is being very inadequately used now because we are a new gas business. So for some long time the influences that are working on gas costs are downward, are pressing influences. One is afraid to say definitely that the price will go down because



inflationary influences would make a forecast of that type dangerous, but I think it is fair to say that for some long time ahead the pressures are to reduce the retail price of gas relative to the price level. I think we could say that very fairly.

THE CHAIRMAN: And you would feel that during that period there would be no questions that gas would be in competition with other fuels in this area.

MR. PURDY: I have no doubt of that at all.

THE CHAIRMAN: And the gas at the well-head would have no effect because of your contract with Westcoast; is that right?

MR. PURDY: That is correct. You see, the size of the contract and the contract itself certainly bears out that conclusion.

THE CHAIRMAN: So that even if they had to increase their price at the wellhead, it wouldn't affect you.

MR. PURDY: For the existing contract that we have, that is correct; it is a firm price contract.



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THE CHAIRMAN: Then, by proven reserves in the ground of between 7 and 8 trillion cubic feet, that is overall; you are not suggesting that should be additional to the 5 trillion cubic feet?

MR. PURDY: That is correct.

THE CHAIRMAN: It is the total you are thinking of?

MR. PURDY: Yes.

MR. ROBERTSON: There is one estimate of 20 years which produces 8 trillion and another estimate of 30 years which produces 5 to 8.

THE CHAIRMAN: Total?

MR. ROBERTSON: Yes.

We deliberately refrain from trying to relate these requirements precisely to the reserves proven in the Peace River area, or to the quantities for which Westcoast holds contracts with producers or is under contract to sell to B.C. Electric and others. This Commission's terms of reference do not appear to us to require detailed estimates of present or potential reserves, or recommendations specifying precise quantities. If and when a National Energy Board is constituted, it will be for it to inquire into such matters as they exist at each relevant time and to act thereon as it may be empowered to do. It should suffice to say here that the aggregate market demands of B.C. Electric in the foreseeable future, the corresponding market



demands of Inland, and the commitment of Westcoast to Pacific Northwest Pipeline Corporation ("Pacific Northwest") require a very substantial gas reserve in the Peace River area - from which these market demands and commitments must be satisfied - and that this situation is, to quote from the terms of reference, one of "the problems involved in ... the regulation of the transmission of ... natural gas ... from Canada to another country."

Regulation by Public Utilities Commission of British Columbia: The B.C. Electric is a "public utility" within the definition in section 2 of the Public Utilities Act, R.S.B.C. 1948, chapter 277. That Act constitutes a commission of three and provides (s. 28 (1)) that "the Commission shall have the general supervision of all public utilities". Under section 45 of the Act the Commission has "appraised" the properties of the B.C. Electric, using original cost as the yardstick, and has established a rate base. Section 16 (1) says that "in fixing any rate ... the Commission shall have due regard, among other things, to the protection of the public from rates that are excessive ... and to giving to the public utility a fair and reasonable return upon the appraised value of the property of the public utility used, or prudently and reasonably acquired, to enable the public utility to furnish the service". Under section 12 (subject



to a limited power of exemption in section 13) "no public utility shall ... begin the construction or operation of any public utility plant or system, or of any extension thereof, without first obtaining from the Commission a certificate that public convenience and necessity require or will require such construction or operation ..." (The conversion of B.C. Electric's manufactured gas system to natural gas and the extension of the system consequent upon the introduction of natural gas were done pursuant to certificates of public convenience and necessity granted after public hearings.) Under Part III of the Act each public utility must file its rates with the Commission, may charge only in accordance with its filed rates, and may not amend any of its filed rates without the consent of the Commission, which may itself fix rates.

MR. PATTILLO: Mr. Robertson, may I just ask you one or two questions about this:

Am I correct in thinking that the public utility commission is not concerned with and does not inquire into what price B.C. Electric may be paying to Westcoast or any other distributor or gas?

MR. ROBERTSON: The commission is interested in the price which B.C. Electric pays Westcoast in that the commission must determine each year what the B.C. Electric has earned and compare that with what it considers a fair allowable return



and, in determining what the B.C. Electric has earned, the commission must examine the various costs which it has incurred and the costs of gas which B.C. Electric purchases from Westcoast is one of those costs.

MR. PATTILLO: Yes, but does it inquire as to whether or not the price paid by B.C. Electric is or is not a reasonable price, under all the circumstances?

MR. ROBERTSON: As far as I know, the commission has never made an inquiry of that kind.

MR. PATTILLO: They just accept it as a fixed cost and start from there?

MR. ROBERTSON: Just as our labour costs and all the hundred-and-one, thousands of items of fixed costs or expenditures are considered.

May I proceed, now?

MR. PATTILLO: Yes, thank you.

MR. ROBERTSON: The Constitution and Procedure of a National Energy Board: The B.C. Electric submits that a National Energy Board should be constituted and that there should be conferred on it, subject to the control and authority of Parliament, all the aspects of policy coming within the jurisdiction of Parliament which may be deemed to require administration in respect of the inter-provincial and international movement of gas, oil, coal, water, uranium and electricity.



The functions now exercised by the Board of Transport Commissioners for Canada under the Pipe-lines Act should be transferred to the Energy Board. The same should be done with the relevant functions of the Department of Trade and Commerce. It would not be wise to confer the proposed powers of the Energy Board upon the Board of Transport Commissioners. The Commissioners already have a heavy burden to carry and the field of energy resources is fundamentally different from that of the types of transportation and communication with which the Transport Commissioners have traditionally dealt.

Such a Board might have the following characteristics:

1. Number of members: 3.

Comment: We feel that this number is the maximum for the expeditious dispatch of business.

2. Term: Not less than 10 years.

Comment: We think this period is the minimum within which a Commissioner can acquaint himself with the technical aspects of the Board's business and use that knowledge efficiently and with experience.

3. Appointed by: The Governor-in-Council.

Comment: This is usual for boards and commissions set up by the Dominion.



4. Remuneration: As set by the Governor-in-Council.

Comment: The Governor-in-Council should be free to fix whatever salary is required to obtain men of the highest calibre for this Board.

5. Termination of tenure: Removable by the Governor-in-Council for cause.

Comment: Removal without cause might promote political interference, and removal by joint address of the two Houses is too cumbersome.

6. Annual Reports: The Board should present an annual report to the Governor-in-Council and this annual report should be laid before Parliament.

Comment: The requirement that the Board's report be laid before Parliament promotes the Board's independence.

7. Provisions for appeal and finality of decisions: The Board's decisions should be final without further reference to the Governor-in-Council. An appeal on questions of law and jurisdiction should lie to the Supreme Court of Canada with leave of the Board or of any judge of that Court.

Comment: The technical side of the Board's business should not be subject to political considerations inherent in review by the Governor-in-Council. Limitation or



definition of jurisdiction for policy reasons should be embodied in the statute creating the Board or in the regulations under it. The provision for appeal to the Supreme Court of Canada is a usual one with respect to important Dominion boards.

8. Staff: The Board should have authority to hire its own staff despite the provisions of the Civil Service Act, but pension rights and other benefits under the Civil Service Act should be made available to staff members.

Comment: We consider it important that this Board have full power to obtain the technical personnel necessary for it to discharge its duties and that this power should not be limited by the provisions of the Civil Service Act. This power is one that has been given to the Canadian Wheat Board and the National Harbours Board.

THE CHAIRMAN: Can we stop you there for a moment? You have made some very specific suggestions here. Have you considered to what Minister such a Board, if constituted, might report?

MR. ROBERTSON: No, we have not, Mr. Chairman.

THE CHAIRMAN: Have you any thoughts on that?

MR. ROBERTSON: Not considered thoughts,



Mr. Chairman.

THE CHAIRMAN: Or the jurisdiction of the Board, what its jurisdiction should be?

MR. ROBERTSON: As suggested at the outset of that part, at page 5, that all the aspects of policy coming within the jurisdiction of the Parliament which may be deemed to require administration with respect to interprovincial and international movements of these energy sources should be given to the Board. Whatever Parliament thinks should be administered should be centred into this one Board, in other words.

THE CHAIRMAN: What are those aspects of policy which come within the jurisdiction of Parliament in respect of interprovincial and international movements of gas and oil? This is a very specific problem, and the Commission had a brief with respect to it in Regina on the question of the jurisdiction of the Province and of the Dominion and it involved the Westspur Transmission Company, and it is a question that if you have an interprovincial pipeline going across the boundaries of two or three Provinces and then have a gathering system and trunk lines within the Province tying into that, are they going to be within the jurisdiction of the Parliament of Canada and not the Provinces?

It is a very real problem, apparently, because the Board of Transport Commissioners, in effect,



decided, in the Westspur case, that they came within the jurisdiction of the Federal authority. If you follow that to its logical conclusion, as I think we feel -- I am not going to express how we feel, but we do feel that if you carry it to its logical conclusion, the original conclusion is that the Federal authority goes right straight back to the wellhead, where the gas and the oil originates, and that is a real decision that was already made by the Board of Transport Commissioners. As a matter of fact, it goes right from the wellhead back to the burner, and all you have to do is to apply the reasoning of that decision and that is the situation we have in our country, and I was wondering if your company could help us with your thinking with regard to that problem.

MR. ROBERTSON: Mr. Chairman, I suppose we have to start with a consideration of what the powers of the Dominion are. There seems to be no doubt that the Dominion has jurisdiction over undertakings which carry, let us say, for example, gas from one Province to another. Now, I doubt that that jurisdiction extends, as apparently it has been held to do in the United States, to other undertakings which sell to the Dominion undertaking. In other words, if there is a project for the construction of pipeline from Calgary to Winnipeg, that pipeline, I would think, falls clearly under the jurisdiction of



the Dominion and the Dominion may allow it to be built or refuse to allow it to be built and the Dominion may establish the standards of safety on construction and set up the machinery for the acquisition of land and all the various things covered under the Pipe Lines Act.

On the other hand, I doubt that the fact that the Dominion has jurisdiction over that undertaking would extend to the jurisdiction over the grid system, if there was one, as there is in Alberta, from which the interprovincial project took its gas, and I would think it was still less likely that it would have jurisdiction over the producers of the gas simply because the gas was going to ultimately find its way into the Dominion pipeline.

Similarly, at the other end, I would think the Dominion would have jurisdiction over the interprovincial project up to the point where the project sold its gas to the distributors and, from then on, would have no jurisdiction.

If we take the example of a telephone company, I would think that a Dominion telephone company, like the Bell Telephone Company or the British Columbia Telephone Company ---

THE CHAIRMAN: Let us take the British Columbia Telephone Company.

MR. ROBERTSON: Yes, the British Columbia Telephone Company, which has been declared to work



for the general advantage of Canada, and it is -- I forget the phrase in the Act -- but it extends beyond the limits of the project. The fact that that company is under the exclusive jurisdiction of the Dominion I doubt would give any power to the Dominion to regulate the price at which suppliers to that company of wire might sell wire to it.

THE CHAIRMAN: But in the case of a pipeline, where do you draw the line? It is hooked up with a gathering system from a spur in a Province and is sold at the valve or the gate, wherever it is delivered to it, and I do not think we should perhaps get into a discussion here of what the legal aspects might be but, from a practical point of view, where do you draw the line?

The Province has jurisdiction over its natural resources and the Dominion over the international movement and you have this decision of the Board of Transport Commissioners. Is it correct that that should be so, in your opinion, that the jurisdiction of the Dominion should follow the line right straight through and all the connecting lines in the Province?

MR. ROBERTSON: Sir, when you say is it correct, are you saying that I should suggest that the B.N.A. Act or is it in the ---

THE CHAIRMAN: If the Board of Transport Commissioners has ruled correctly -- and certainly



I would not suggest any doubt as to the judgment they gave within the terms of the Pipe Lines Act and the regulations made thereunder -- but is it a situation that should be left as it is or is it a situation in which some recommendation should be made to the Federal authorities, that the regulations made under the Pipe Lines Act or the Act itself should be changed so that this does not occur? What is in the best interests of the operation of pipelines and the interprovincial movement of oil and gas?

MR. ROBERTSON: I am afraid that anything I say will not have been carefully considered, Mr. Chairman.

THE CHAIRMAN: I understand.

MR. ROBERTSON: My earlier personal feeling would have been that the Dominion's jurisdiction should not extend any further than the beginning and end of the projects which are established under Dominion jurisdiction, either by declaration of a specific project as a work for the general advantage of Canada or under the head of Section 91 or 92 which makes a project which extends from one Province into another subject to Dominion jurisdiction.

I do not think that should be extended to people who do business at either end of the line with a Dominion project.

MR. COMMISSIONER HARDY: Mr. Chairman, we



might put the problem a little more specifically to Mr. Robertson. In the event that you have an interprovincial pipeline and there is to be an extension into a new field, an application comes for that extension from a purely provincial company and the interprovincial company also wants to make an extension into that one field. In other words, they are competing for the right to make that extension.

Who would have the jurisdiction?

MR. ROBERTSON: Mr. Hardy, when you say an extension into a new field, do you mean gathering gas at a new field or selling it?

MR. COMMISSIONER HARDY: The gathering system.

MR. ROBERTSON: I should think there would be co-ordinate jurisdiction there and the field might be occupied by the Province until the Dominion occupied it.

MR. COMMISSIONER LADNER: Mr. Robertson, just to clear in my mind one point which you made which I thought was of some considerable importance: you referred to the undertaking. Do I understand your point is, as to jurisdiction, that the undertaking, a single undertaking in the transmission of gas from one Province to the other, the Dominion would have jurisdiction over that?

If there was a separate undertaking of gathering and supplying that gas to the interprovincial



line, then the Province would have jurisdiction over that, because they are two separate undertakings. Is that what you had in mind?

MR. ROBERTSON: Yes, Mr. Ladner.

MR. COMMISSIONER LADNER: That was your idea?

MR. ROBERTSON: Yes, unless the Dominion, by statute, were to declare the provincial one an undertaking in the general advantage of Canada, and I think there would have to be specific undertakings to be brought within the jurisdiction by statute at that time.

I think it is in the Canada Grain Act that all elevators are declared to be works for the general advantage of Canada, whether already or hereafter constructed.

I think it is in the Luscar Colliery case where I think it was said, either in the Supreme Court of Canada by Chief Justice Duff or in the General Committee, that a specific undertaking must be undertaken.

THE CHAIRMAN: Is that the railway case?

MR. ROBERTSON: Yes.

THE CHAIRMAN: The provincial railway tied into the Canadian National?

MR. ROBERTSON: Yes.

MR. COMMISSIONER HOWLAND: Mr. Robertson, you say that a National Energy Board, as you propose,



should be concerned with administration. It has been suggested elsewhere that it also should be concerned with an analysis of this changing energy system which Mr. Bonner mentioned to us this morning. You were excluding advisory work?

MR. ROBERTSON: No, I would not, Mr. Howland, and elsewhere in this brief we specifically say we think it should do that.

THE CHAIRMAN: Have you any thoughts with respect to qualification or disqualification of members of such a Board? Should they be prohibited from being connected with oil, gas, electricity and so forth; should they be prohibited from holding any securities in companies or corporations engaged in such businesses?

In other words, how far do you go in setting out the qualifications or considering the qualifications of such individuals?

MR. ROBERTSON: If I had to do it, Mr. Chairman, I would place no limit on their qualification. I think it should be left to the Government of the day to pick the best men available. I think that saying people that are or were then connected with an industry should not be competent to sit on a Board would be to deny the possibility of obtaining the services of the men best qualified, a number of men best qualified, and I think, similarly, to require a man who has an interest in the industry to



divest himself of that interest might very well prevent the men best qualified technically and in the way of judgment from sitting on the Board.

MR. COMMISSIONER BRITNELL: It was suggested, Mr. Robertson, in a previous submission, that members of an Energy Commission should be technical men. I would take it from what you have said and what you say subsequently that you would not go quite that far, that you would settle for intelligent laymen, at least in part?

MR. ROBERTSON: I would, most certainly, sir. I think perhaps one member should be a man who is well qualified technically, but I would not want to see the entire Board so constituted.

MR. COMMISSIONER BRITNELL: No.

MR. ROBERTSON: Mr. Purdy would like an economist. Well, I would like a lawyer on there.

MR. COMMISSIONER BRITNELL: We were threatened by exclusively engineers.

MR. ROBERTSON: I think that would be tragic.

THE CHAIRMAN: I would hate to think what it would be if it were half-and-half.

MR. ROBERTSON: With respect to the Board's procedure, every attempt should be made to avoid its proceedings being snarled up by too meticulous examination of details by the Board's staff and the Board itself, to avoid the giving of unlimited rein in



hearings to intervenors who have only an indirect interest and whose principal purpose is often nothing other than delay, and to avoid a complicated system of filings and pleadings. We are not yet ready to suggest any rules of procedure that would overcome these undesirable features; possibly we shall be able to make suggestions in our brief on electricity and water. At the moment, we doubt that the solution is to be found in rules of procedure. It lies rather in the philosophy with which the Board approaches the discharge of its duties. Perhaps we can indicate best what we have in mind by a hypothetical case:

Company A plans to spend \$100,000,000 in building a gas pipeline from Province X to Province Y. The promoters of company A have satisfied themselves that it can make contracts with responsible producers of gas in Province X for a given quantity over a stated period of years, that it can make satisfactory sales contracts with gas distributing utilities C and D in Province Y, and that the whole project is feasible; and they are prepared to put up themselves a substantial amount of equity capital. They have convinced a responsible firm of investment bankers B to raise the additional monies required by the sale of preferred shares and bonds. Both company A and the bankers B have had estimates of gas reserves made by reputable geologists. The distributors



C and D have carefully estimated their markets and supplied the information to A and B, who have done some checking. Now here we have a situation where the experienced businessmen who run B, C and D and the promoters of A, who are prepared to put up money of their own, all think that the business risk that the project involves justifies their embarking on it. How are the members of the Board to act in dealing with an application to approve the project? If they are themselves men who are experienced in business and affairs generally, they will probably make a limited number of spot checks to satisfy themselves that A, B, C and D have done what they say they have done, and then view the project in its broad aspects in order to decide whether or not to approve it. On the other hand, if they follow the precedents set in the United States, they will hold protracted hearings, going over all the details of what all the people concerned have done -- including many of the technical aspects, which the members of the Commission as laymen will not be able to understand -- that should be, perhaps, "which some members" -- and they will employ a large staff to re-check the details. In the result, there will be great lapse of time, great expenditure of money, and a danger of the woods being obscured by the trees.

Reference is made above to "precedents set in the United States". There the whole regulatory



process tends to become top-heavy and to lead to inordinate delay. Examples of this are cited in the issue of Time magazine of 17th March, 1958, at p.74. The article is reproduced in Appendix "B" to this brief. It is consistent with our own experience with the Federal Power Commission and Interstate Commerce Commission.

Now, with respect to that quotation from Time magazine, unless you want me to read that, Mr. Chairman ---

THE CHAIRMAN: I think we can take it as read. I think we know their views.

MR. ROBERTSON: In the Board of Transport Commissioners' administration of the Pipe Lines Act, it appears, if we may say so, to have adopted the businesslike approach. We strongly urge that this Commission recommend that the National Energy Board adopt a similar approach. This will be aided by giving the Board wide powers to establish and regulate its own procedure. We are satisfied that the interests of Canada will be best served in that way.

Before leaving this subject we wish to qualify our remarks about the Board's checking of details. Careful appraisals will be required in determining from time to time what quantities of gas may be surplus to the needs of Canada and so exportable. No doubt this will to a large extent be taken care of by the keeping of running records of



exploration, development, production and so on.

While we suggest "careful appraisals", we would like to associate ourselves with a submission which we understand has already been made to this Commission to the effect that, in determining volumes of gas which can be made available for export, it is unrealistic to ignore potential growth of supply, and to appraise the adequacy of reserves to meet future needs solely on the basis of proven reserves; and that future trends should be taken into account.

We turn now to the aspects of energy matters that should be committed to the National Energy Board. As already submitted, it should have jurisdiction in respect of all the sources of energy and electricity. These are so inter-related that one Board can achieve much better results than several Boards.

We submit that, in the words of clause (a) of paragraph 22 on p. 57 of the Preliminary Report of the Royal Commission on Canadian Economic Prospects, the Board should be responsible for:

"(a) advising the federal government and upon request any provincial government on all matters connected with the long-term requirements for energy in its various forms and in different parts of Canada; methods of promoting the best uses of energy



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sources from a long-term point of view;
export policy, including such questions
as the further refining of oil and gas
in Canada and the disposal of by-products;
coal subsidies, etc."



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We submit that the Board should have jurisdiction similar to that now conferred on the Board of Transport Commissioners by the Pipe-lines Act in respect of projects for the building of inter-provincial gas pipelines and pipelines for the export of natural gas, and in respect of those other aspects of the matter with which we deal elsewhere in this brief.

With respect to the clause in the same paragraph 22 recommending that the Board be responsible for "approving all contracts or proposals respecting the export of oil, gas and electric power, including, where necessary or desirable, the holding of public hearings in connection therewith", we submit that the Board should not concern itself with all contracts or proposals. It should be concerned only with those that have to do with the establishment, extension or expansion of pipelines and their throughput.

We submit that the Board should regulate standards of safety in the construction and operation of gas pipelines.

We submit that the Board should not be empowered to regulate the corporate structure and financing of pipeline corporations after their projects have been approved. Such regulation can be of no assistance in raising monies: if people can be found to put up the necessary money, well and good; if not, the Board will not be able to find it. If there is



to be price regulation and it follows the generally accepted practices of today, the financial structure of a company will not affect the approval of its rates - they will be fixed to allow a fair return on either the original cost of the appraised value of the property actually used in giving service.

MR. PATTILLO: Just stopping there, Mr. Robertson: This paragraph that you have just concluded reading where you submit the Board should not be empowered to regulate the corporate structure and financing of pipeline corporations after their projects have been approved. Are you saying there that they should have power before the first approval, or are you contemplating that they should not have any power at all?

MR. ROBERTSON: I am contemplating that one of the matters the Board would consider very seriously when deciding whether or not to approve the project would be the corporate structure of the applicant, but I would say the applicant, once established, the Board should not have jurisdiction to say whether or not it may increase its authorized capital or issue bonds or preferred shares or common shares, and the terms of those issues.

MR. COMMISSIONER LADNER: Supposing there was a complete change of the financial structure after the approval -- a radical and complete change?

MR. ROBERTSON: Would you give me an example,



please?

MR. COMMISSIONER LADNER: Well, if they approved of a corporate structure with bonds, debentures and equity capital, and so on -- certain specific amounts -- and it was approved, and then the company decided they didn't want bonds and debentures, and that they wanted equity capital, and it was an entirely different financial set-up: should the company have to go back to the Board and say, "Will you approve this?"?

MR. ROBERTSON: I think it should.

MR. COMMISSIONER LADNER: After approval?

MR. ROBERTSON: Yes, I think the original approval would include in its terms the original corporate structure of the company, and that the company should not be allowed to depart from that as soon as it has got a certificate.

THE CHAIRMAN: What you are saying, really, is we would not favour making the Board an S.E.C. for Canada in so far as gas, oil and sources of energy corporations are concerned?

MR. ROBERTSON: That sums it up precisely, Mr. Chairman.

THE CHAIRMAN: On page 10 you seem to leave out electric power. I don't know whether you really mean that. As I understand the paragraph -- and it is the one that ends at the bottom of page 10 -- "With respect to the clause in the same paragraph 22



recommending that the Board be responsible for approving all contracts or proposals respecting the export of oil, gas and electric power, including, where necessary or desirable, the holding of public hearings in connection therewith', we submit that the Board should not concern itself with all contracts of proposals. It should be concerned only with those that have to do with the establishment, extension or expansion of pipelines and their throughput."

Well, are you suggesting thereby that the Board should have nothing to say whatsoever with respect to a contract and the terms of a contract for the export of electricity?

MR. ROBERTSON: No, I wasn't intending to suggest anything of the kind. I am only dealing in this brief with gas.

THE CHAIRMAN: In other words, I want to clear that up: You are not taking the position that the export of electricity should not be subject to review and approval by such a board?

MR. ROBERTSON: Not by any means.

THE CHAIRMAN: Would you go so far as to say the terms of price should be under such review?

MR. ROBERTSON: The price for export, yes.

THE CHAIRMAN: Of any form of energy?

MR. ROBERTSON: Yes ---that is to say,



the Board should have jurisdiction to fix minimum prices.

THE CHAIRMAN: I think you deal with that a little later in the brief?

MR. ROBERTSON: Yes.

MR. COMMISSIONER HARDY: Mr. Chairman, before we leave this section, could I go back to page 7. In your example of how this Board would work, you outline how company A would be formed and what they would do, but I feel that is an oversimplification of the problems that are actually in existence right now. For example, since the 1st of March the Petroleum Natural Gas Conservation Board has had essentially this very sort of problem before them, but there is not one company; there are three companies that have a vital interest in this thing. Each company brings in the sort of information you are talking about, but there is no agreement between the three submissions, and I fail to see how that Energy Board under those conditions could properly function without having a properly organized technical staff that can appraise the details of the submissions made.

MR. ROBERTSON: I was speaking of the details of the gas available.

MR. COMMISSIONER HARDY: Well, I suggest that the example you use on pages 7 and 8 of how the problem arises is unrealistic. The problems do not arise that way in all cases; that there is more



than one company that is interested in the same project.

THE CHAIRMAN: Could I help you, Mr. Robertson, because I would like to get clarification of this, because, as I see it, Dr. Hardy, the National Energy Board would only be dealing with one in the example you give, because it would never deal with anything until the Province had given its export permit; isn't that right?

MR. COMMISSIONER HARDY: It could be that way, but is it necessarily that way, Mr. Chairman?

THE CHAIRMAN: Well, suppose the Province gave two or three export permits, you mean?

MR. COMMISSIONER HARDY: Well, at what stage? Take the situation in Alberta right now: at what stage does it stop being a provincial matter and become a Dominion matter, as to whether the gas should go to location A, B or C?

THE CHAIRMAN: Well, not until the Province of Alberta, which has control over its own natural resources, has refused to grant or granted an export permit; it doesn't come within Dominion jurisdiction until then.

MR. COMMISSIONER HARDY: But then, this National Energy Board, to take the specific problem they are struggling with in Alberta now, wouldn't it be a matter of concern to the National Energy Board as to whether the needs of Canada were adequately looked



after before they would approve the export to elsewhere, and that has led to a lot of the technical argument which has to be settled by the technical people that must advise whatever body is going to have jurisdiction.

MR. ROBERTSON: Well, may we simplify it by assuming a proposed export from a province which has not an act like Alberta, and where anybody may export gas he has acquired in the province, and we have three competing applicants before the Energy Board: certainly, the Board would consider each of those applications. It would naturally look favourably and in an attentive way on any one of them if it was satisfied the project was a feasible one, and I suggest in deciding whether or not it was a feasible project it should approach it in the way I have suggested at pages 5 and 6. But then, having decided which of the three projects, if any, are feasible, then the Board has to consider which of them, if they are mutually exclusive, it is in the interest of Canada it should approve. Whether or not it would have to go into any further detail about the reserves or the markets in deciding that, other than I have suggested here, I don't know. If it felt it did have to, then it should have wide jurisdiction to do so.

MR. COMMISSIONER HARDY: Mr. Chairman, my point is that if we draw the conclusion that is



suggested here on the organization, as tentative as it may be, of an Energy Commission on a basis of this type of example, I say right now that the experience we have had with this Commission in the hearings as to what the problems are, that it could not operate. It would have to have more technical advice than is contemplated here and would have to have the facilities to make a more detailed technical appraisal than you are suggesting in this. One of the difficulties put, Mr. Robertson, as we understand, with the F.P.C. is that as objectionable as their hearings may be, one of their difficulties is that they appear to be under-financed; they are not properly financed to do the job they have to do.

MR. ROBERTSON: Yes, but that tremendous expense that would be involved in doing the job the way they would like to do it is one of the things I don't think is justified by the results, and that is why I think our Board should keep away from it.

MR. COMMISSIONER HARDY: That, of course, comes into the realm of opinion, and I grant you have a perfect right to present that idea, but I would suggest with the information presented to us here that in the Province of Alberta you can well justify the expenditure of money that has been put into their Conservation Board which is the most complete Board of its kind in the country. I doubt if the petroleum industry would go along with the



fact that the method of operation of the Petroleum and Natural Gas Conservation Board in Alberta -- or, the Oil and Gas Conservation Board now -- should be altered to reduce the amount of work they do in line with what you are suggesting here.

MR. ROBERTSON: I must agree that the gathering of a tremendous amount of information by such a Board as that is necessary in the function of pro rating and so on, which I understand is something which is considered on all sides as a valuable contribution, but I don't think that is the kind of thing our Energy Board should do.

MR. COMMISSIONER HARDY: But it has been presented to us there is a great lack of technical information at the present time. It has been presented to us that one of the important functions of a National Energy Board would be to collect statistics that are not being collected now, and it would be very valuable to the industry.

MR. ROBERTSON: But I think the collection of statistics -- I am not quarreling with that, Dr. Hardy, that statistics are valuable; on the other hand, collecting statistics is one thing, and having a very broad view of an industry as a result of that collection is another thing, but going to the lengths that have been gone to in the Federal Power Commission of having large staffs go in and repeat the examinations that qualified people have made of permeability



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and verocity, and 101 details that I don't understand, of the various fields from which it is proposed to draw gas, it seems to me a waste of public money and a waste of time. I think that if the people in the business think that they can safely put up their money on the strength of the reserves which, say, one of the major oil companies is prepared to sell them, then that is a risk which the public should be subjected to equally.



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MR. COMMISSIONER HARDY: I have no quarrel with the case you mention here but, then, you have an existence here today the problem of competing companies presenting their cases which have to be ruled upon and then a third company which has a vital place in the picture, all of them presenting their own technical information which must be assessed and that cannot be done by laymen.

MR. ROBERTSON: When you say their own technical information must be assessed, you mean that Company A, for example, says there is 536 billion feet of gas in a field from which we plan to draw and Company B and C say, "No, there is not as much as that, there is only 400 billion cubic feet."

MR. COMMISSIONER HARDY: That is one of the sort of things.

MR. ROBERTSON: In the case of a dispute I must concede the Board would have to look further into the matter and then it would, if there was any dispute raised in the application before it, it would have to satisfy itself as best it could which of the estimates was the better. But I still submit that does not necessitate the Board having to maintain a staff which is going to duplicate all the work of the people who have looked into it already. I think the Board should be in the same position as any other administrator or person in business or court, to weigh the available information and come to a conclusion. By



putting its own people in it does not, necessarily, solve the problem or make their position any more right than the others. There is disagreement between members of the staff of the Federal Power Commission.

MR. COMMISSIONER HARDY: It has other effects but I do not think it is necessary for us to agree between ourselves.

MR. COMMISSIONER BRITNELL: Do you not, Mr. Robertson, make a provision for considerable discretion and flexibility in the hiring of technical staff in the final point in your outline of powers on page 7 when you say: We consider it important this Board have full power to obtain technical personnel necessary for it to discharge its duties.

MR. ROBERTSON: I think it should be well equipped in that way.

MR. COMMISSIONER BRITNELL: If we should be put into the position that Dr. Hardy envisages, you would not want to put any limitations on the getting of technical personnel to resolve their problems.

MR. ROBERTSON: If the occasion should arise when they could not rely on either set of rates, they should be free to go out and make their own inquiries.

MR. COMMISSIONER BRITNELL: I would assume from this section you would have no objection to their employing a geologist or two, shall we say.

MR. ROBERTSON: Oh, no.



MR. COMMISSIONER BRITNELL: I want to get away from these statisticians.

THE CHAIRMAN: I would just like to ask one question and would you think it over during the break, if you do not mind.

As I understand it, it is only with respect to the exportation of gas at the moment in our country that provincial jurisdiction requires an export permit. That does not apply with respect to oil or electricity and, in some provinces, there is no export permit required even for gas. Perhaps, during the break, you will give a little thought to that and answer the question or, at least, give us your help as to whether or not, with respect to all those forms of energy, there should be any action by the Federal authority until an export permit from the prospective provinces has been granted.

Shall we have a ten minute break.

---A short recess.

THE CHAIRMAN: Gentlemen, we shall now resume our hearing. Mr. Robertson?

MR. ROBERTSON: Mr. Chairman, before answering the question you put to me just before adjournment, may I refer once more to the question of technical staff. I do not want to give the impression we think the Commission should have a very minimum amount of staff and pay very little attention to them. We feel the Commission should have the most highly qualified people on its staff; people who



would be able to help the Commission to assess the representations which are made to the Commission.

Referring to the question you asked me about, the order in which the Dominion and a province might deal with the applications for export, I would submit this: that it should be left to a province to say whether or not there is gas surplus to the needs of the province which can properly be exported. I would say, it is not for the province to decide whether that gas should go to another province, as contrasted with going to the United States or if there are competing projects for taking it to different provinces, to which of those provinces it should go.

I would submit the question for the province should be is there exportable gas and if so, how much; and then the National Energy Board should look into the matter in the interest of Canada as a whole and determine where that quantity of gas should best go and which project or projects should be allowed to carry it. Now, if the province itself, as has been done up until now, in the absence of any Dominion legislation, considers the whole problem of whether gas should be taken east or west or to which part of the provinces or whether to the United States or British Columbia. That, I think, is something which is quite possibly already outside of the jurisdiction of the provinces and certainly should be after the



establishment of a National Board because, I think, we can only have one Board formulating an energy policy in the national interest. We cannot have ten different provinces, each one deciding what is in the national interest.

THE CHAIRMAN: Would you apply the same reasoning to electricity?

MR. ROBERTSON: I have not thought about that, Mr. Chairman.

THE CHAIRMAN: Or oil?

MR. ROBERTSON: Oil, I suppose, is the same; offhand, I cannot see why one should differentiate between oil and gas.

THE CHAIRMAN: Then why electricity?

MR. ROBERTSON: That may be different; I do not have any thoughts one way or the other on that. There might be this difference: oil and gas are things which, speaking generally, in a majority of the cases are the property of the province which it allows individuals to remove from the soil. I think the province can, perhaps, properly make out a condition of that removal from the soil, that the goods shall not be taken out of the province unless the province holds they are surplus to the needs of the province. I do not know that the same principle applies in the case of electricity which is something that may be manufactured by the person who proposes to export it. I do not have any feelings either way.



I am just groping for a distinction, if there is one.

THE CHAIRMAN: Since you would obviously give jurisdiction to any such Board as we have been discussing, jurisdiction over all sources of energy, which would include and in your brief you stated so, how do you fit the jurisdiction and functions of the International Joint Commission into such an organization? You ran into that problem also, did you not?

MR. ROBERTSON: I have not thought about that. There might be some impingement of the jurisdiction of one on the other but the National Joint Commission, as I understand it, certainly under the treaty of 1909 deals with the physical conversion of waters which are defined as boundary water or the taking of waters from one country into another by damming them into the downstream. I think those problems would enter very slightly into the field of a National Energy Board.

THE CHAIRMAN: I would think that they would loom large. After all, if your supply of electricity comes from your supply of water, if you exclude the thermal plant and, surely, that is part of your overall national energy policy.

MR. ROBERTSON: Yes, and not generally speaking, it should be under the National Energy Board. There might be the case where you had a



project where the damming of the river backed the water up across the boundary but those cases would be comparatively few, in toto, as I read the treaty of 1909 which does not say anything about such a problem as the construction of a dam on Mica Creek; that is not within the jurisdiction of the International Joint Commission at all.

MR. COMMISSIONER LADNER: Unless it changes the level of the water.



MR. ROBERTSON: Mr. Ladner, as I read the treaty, it is only if it changes the level of the water so as to back it up into the other country. Supposing the Americans were to build a dam just below the International Boundary so that the waters backed up and flooded into Canadian land, that would be a matter of Canadian jurisdiction.

MR. LADNER: Supposing they diverted the Fraser, and lowered the quantities downstream that went into the generators, that would be contrary to the provisions of the Water Treaty Act of 1909.

MR. ROBERTSON: I know that you have given it much more study than I have, but my impression is that it refers to waters only that have backed up to the boundary and through waters down the bed of each of the International Boundary Lines.

THE CHAIRMAN: Let's exclude the international export of electricity and just come to the crossing of electricity as between two and three provinces.

MR. ROBERTSON: Yes, Mr. Chairman.

THE CHAIRMAN: Should the National Energy authority we are talking about have jurisdiction over that or should each province have jurisdiction over it?

MR. ROBERTSON: I think in the interests of Canada the National Energy Board should have, and, of



course, that Board in coming to the conclusions will in taking into account the acting regulations for each of the provinces. But I think where the resource or the result of the resource is going to flow across the country, then I think it has got to be looked at nationally rather than provincially.

THE CHAIRMAN: Do you think the provincial authorities would agree with that view, with respect to the control of national resources? Isn't that one of the problems that bedevils us in this consideration?

MR. ROBERTSON: Yes, the provinces have historically always shown jealousy of the powers they have under Section 92 of the BNA Act. If they thought that impinged on their powers they might be upset. On the other hand, they might look at it as a national problem and feel that it is in their interests along with the interests of the rest of the country that the matter should be judged in a national way. I would think that an Energy Board would never as a matter of policy take from one province energy or a source of energy that was needed there and allow it to be shipped to another province and leave the people in the next province, say, destitute of that energy.

THE CHAIRMAN: Wouldn't it be for the province to say that that was going to happen and they wouldn't permit it?



MR. ROBERTSON: I did say earlier, dealing with gas, that I said the province should be the one to say whether or not there is a quantity of exportable gas and how much it is. But which way it is going to go, once having been earmarked as exportable, then I would say that is a matter for the Dominion.

THE CHAIRMAN: Well, it is a very difficult subject, complex, isn't it?

MR. ROBERTSON: Yes.

MR. COMMISSIONER HARDY: Mr. Chairman, I think we would agree that the province would have the right to say that there is not enough energy of certain types, but in the event that they say there is enough, if the problem was far more likely to arise this way from there on, a national jurisdiction might say we won't permit that energy to go to place A, we want it to go to place B, that scheme might not be economical, and someone has then to absorb the financial loss in that. Who is going to absorb that loss if it is assumed, that it is stated as a national policy that the energy should be kept in Canada where it could be more economically sold than elsewhere?

MR. ROBERTSON: Let's suppose the province has a trillion sheet of gas which is exportable, then I think it is -- and the province might say -- I am not sure about this -- the province might say that gas lies within a certain part, then we would have



applicants to the Dominion Energy Board, rival applicants, if you like, to export that gas. Now, they would have to, in order to succeed, acquire the right to take that gas from whoever the province gave the right to or had given the right to, and it would be a question then, if the Dominion would only allow the gas to go to point A instead of point B, whether they would want that gas to be sold at point A.

MR. COMMISSIONER HARDY: Do you apply the same argument if you substitute gas for electricity?

MR. ROBERTSON: Yes, I think so, possibly with the exception that I suggested a little while ago.

MR. COMMISSIONER HOWLAND: There is a question I would like to ask -- well, it is two questions. One, you say: "If there is to be price regulation . .". I wondered whether you were ready to assume that there would be price regulation.

On the second question, that it could be by inference that you feel that the present accepted method of regulation in public utilities, the allowing of a reasonable return on certain figures, is quite acceptable, is it so, or do you feel that with the modern changing technology and the need to constantly revise investment there should be some special or changed method of assessing what is the basis of a reasonable return?

MR. ROBERTSON: Well, answering your questions in the order in which you put them, Mr. Howland,



the first one -- I do not accept that there should be regulation of prices. I think there should be the fixing of minimum prices for export; I think there should not be regulation -- I develop it later in the brief --- on the prices at which pipeline companies might sell to distributors.

Dealing with the second point, there is a great deal of discussion in the public utility industry as to whether it is better to have an original cost basis or to have a basis which allows the property used to be reassessed from time to time. In what is perhaps my limited knowledge of the literature on the subject, what is certainly my limited knowledge, I don't think there is a great deal of quarrel about this, that the right thing to do is to place a value on the property which is to be used, and the way in which it happens to have capitalized itself is not the criterion which should be used. If you assume that there is an original cost rate base, the question is whether you should always adhere to that or whether you should be given an opportunity to reappraise that from time to time as cost increases or values diminish. I personally don't hold any strong views on that, and I have never looked into it enough.

MR. COMMISSIONER HOWLAND: It is not a pressing problem to B.C.

MR. ROBERTSON: No, it is not something



we have tried to pursue on our public utilities Commission.

THE CHAIRMAN: You would like a replacement value as an operator.

MR. ROBERTSON: We might ask for replacement cost and then go into a period of deflation rather than inflation and be sorry we dealt with that.

THE CHAIRMAN: All right, Mr. Robertson, thank you.

MR. ROBERTSON: May I take up at page 11 now, Mr. Chairman?

Regulation of the Export of Natural Gas:

We submit without hesitation that natural gas should not be exported except under permit.

The general pattern of legislation might follow that of the Exportation of Power and Fluids and Importation of Gas Act and the Regulations made under it, with changes along the following lines:-

Now, I refer to subsection (2) of section 3 of the Act which reads this way:

"A licence to export power or fluids may provide
"that the quantity of power or fluid to be
"exported shall be limited to the surplus remain-
"ing after due allowance has been made for dis-
"tribution to customers for use in Canada during
"the period of the licence".

1. Under subsection (2) of section 3 the surplus quantity that may be exported should be required to be



specified in the licence at the time it is issued, so that the importer into the United States will not be left in a position where the quantity exportable may be varied as Canadian demand increases. Such revision should also be framed to overcome the apparent defect in the subsection that equates the surplus exportable through the licensed line to the entire surplus throughout Canada; the quantity should be fixed with an eye to the fields from which the line will draw gas and the areas in Canada which might expect to look to those fields for their supply of gas.

2. The Act should be administered by the Energy Board and not by a Minister, and the powers in sections 3 and 8 should be exercised by the Board rather than by the Governor-in-Council.

3. Where appropriate, the Board should be substituted for the Director, the Minister and the Governor-in-Council in the Regulations.

I refer next to Regulation 9 which reads thus:

"The price charged by a licensee for power or gas exported by him cannot be lower than the price which that power or gas respectively is supplied by them or his supplier in similar quantities and under similar conditions for sale for consumption in Canada".

4. Our thinking on Regulation 9 has evolved along these lines:

(a) The regulation is unsatisfactory because no



prosecution for a breach of it could succeed unless it was shown that the quantities exported were similar to those sold for consumption in Canada and that the conditions of sale were also similar -- two things in combination which in ordinary practice might be almost impossible to prove.

MR. PATTILLO: That is your opinion, Mr. Robertson.

MR. ROBERTSON: Yes.

The regulation should, in effect, provide that the export price shall be no less, *mutatis mutandis*, than comparable prices to distributors in Canada.

(b) However, such legislation would probably be unworkable in the Courts, and so it should be left to the Energy Board to determine whether or not the export price is low in relation to domestic prices.

(c) Read strictly, Regulation 9 is always speaking -- and there I have in mind Section 10 of the Interpretation Act -- and so an agreed export price which is legal today may be illegal tomorrow, because the licensee has made a new contract for sale of gas for consumption in Canada; this is unbusinesslike: Canada should let an importer from it know when the licence is issued how he will stand during its term. Therefore, the minimum price or prices at which gas may be sold for export during the period of the export licence should be fixed at the time when the licence is issued. The logical way to handle this is



to specify in the export licence the price at which the gas may be sold.

Looking at the whole picture, we suggest that Regulation 9 might be incorporated in Regulations 6 and 7 (or, better still, be set out as a section in the Act) along the following lines:-

" A licence to export gas shall specify the
"minimum price which the licensee may charge for
"the gas exported by him, and the price so
"specified shall not be lower than a price which,
"in the opinion of the Board, is fairly compar-
"able, mutatis mutandis, with the price at which
"the licensee or his supplier sells gas for
"consumption in Canada."

MR. PATTILLO: Mr. Robertson, just stopping there, supposing that a company is going to transmit gas and one of its prospective customers was, say, a company in another country, the remainder of its customers were to be in the country of origin, and it went and made the first contract with the company in the other country. Now, at that time there would be nothing to compare with that contract. Subsequently, it came along and made contracts with companies in the country of origin and it said to all of these companies, We regret that we can't sell to you gas which would yield a price similar to the contract which we have made with this first company, that was the best contract we could make with that company, but we have got to



have a better result so far as you are concerned, and the company wants the gas and agrees to accept the terms of it. Would you say then, because of the order in which the contracts were entered into, that you couldn't look at or do anything about that first contract made with the company in the export country?

MR. ROBERTSON: That certainly is as a result of the legislation as it stands at the present time. Even if you approached it in that order -- and I point out here that there is a weakness in the legislation in that the regulation deals only with the price at which gas is sold for domestic consumption, and when I use the word "domestic" I mean in Canada, and I think the Board if it has jurisdiction to look wider than that, and I think the Board in the case such as you have mentioned where the person applying for the permit up to that time has only export in mind or has only brought it forward now that the Board if it look to the future possibility and see what price gas is being sold at for domestic consumption elsewhere in Canada or elsewhere in that district.

MR. PATTILLO: What I had in mind -- you made a comment on page 12, "and so an agreed export price which is legal today may be illegal tomorrow, because the licensee has made a new contract for sale of gas for consumption in Canada; this is



unbusinesslike". You could get that result every-time if you followed the procedure that I have just outlined to you where you went and made your contract first with the company in the other countries and then came along and made your contract with the domestic people.

MR. ROBERTSON: Yes, and the protection for the people of Canada will be that the Energy Board will take into consideration the future prospects for domestic consumption and the price at which gas will be sold for domestic consumption in Canada in authorizing exports at a given price. But our submission is that you can't have the Board saying that is all right today and a pipeline being built on the strength of it and next year, because of some other contract being made in Canada, that pipeline will be increased. You can't have it built in Canada if the prices are not going to be endured during the life of the bond.

THE CHAIRMAN: Mr. Robertson, under page 13 you are suggesting an amendment which would be technical, and you use the term "shall not be lower than a price which, in the opinion of the Board, is fairly comparable, mutatis mutandis, with the price at which the licensee or his supplier sells gas for consumption in Canada". If you put in that phrase mutatis mutandis, don't you bring it right straight back to where it is today under the regulations of



similar conditions to those--quantities exported similar to those sold for consumption in Canada and that the conditions of sale were also similar? In other words, what meaning do you give to mutatis mutandis, if you bring it in and bring it right back to where it is today?

MR. ROBERTSON: I bring it in in this way, Mr. Chairman: Supposing -- incidentally, you will see later on I threw doubt on my own draftsmanship here. I said in that draftsmanship for the moment, let us suppose that you have one pipeline company which has built a 30-inch line from the Peace River area to the border and is selling through it 600 million feet of gas a day and you have the same company that has built a line from the Peace River area to Alberta, assuming that Alberta hasn't got any gas, and it is an 18-inch line and it is good for 130 million feet a day. Now, under the present regulations on gas, the quantities are in no way similar, the regulation cannot operate at all to maintain a proper balance for the export price from the 30-inch line and the sale at the end of the 18-inch line, and if you have those two words, two important phrases, "in the opinion of the Board" and "mutatis mutandis", then the Board can make proper calculations in using its opinion to relate the price at which gas out of the 18-inch line is being sold to the price at which gas is being sold out of



the 30-inch. But without some latitude of that kind, I don't think you can deal with a situation of that sort at all under the regulation.

THE CHAIRMAN: If you don't have a regulation worded in this way at all and you did have, however, a regulation which allowed the Board, such a Board, in the first instance to equate the value of the service as distinct from the cost of the service, we do not overcome all your problems? In other words, the building of a pipeline may be a very desirable thing and have a great value as a service as distinct from the cost of that service, and if the Board were, in its opinion, to set that at the time it granted an export permit, you would evade all these problems, would you not?

MR. ROBERTSON: I would hate to think it would evade all the problems.

THE CHAIRMAN: All the problems in respect to Regulation 9 you bring up.

MR. ROBERTSON: Yes, but later on we add that the Board might adopt the policy of saying that the minimum price we think that gas should be exported at is so much and looking as a general evaluation of the service at which the availability of gas falls.

THE CHAIRMAN: I wouldn't think that that would meet it, but I would suggest that



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the minimum price might not equate the value of the service which would result in Canada as a result of a lower price.



MR. ROBERTSON: Perhaps I have not caught the significance of the word "service," Mr. Chairman.

THE CHAIRMAN: Well, I am sure, with all due respect, that, for instance, there has been a certain amount of evidence given before the Commission with respect to the Westcoast contract and Pacific Northwest at 22¢, or whatever it is. But let us assume that such a contract is necessary in order to justify the building of the line, such a contract for the export of gas, and that was the best price they could get for it, and we know that circumstances could be foreseen that, economically, gas could be moved into the British Columbia area. If the export permit for the Alberta gas were granted, after equating the 22¢ price that the border gives to the people of British Columbia, by reason of enabling them to get gas on a basis which would enable it to be economically supplied to the communities and cities in British Columbia, then the Board would make its decision at the start of that and grant or withhold an export permit, equating or evaluating, as part of the export price, the value of the services as distinct from the cost of the services.

MR. ROBERTSON: I was thinking, when you spoke of the value of the services, of the value to the purchaser in the United States.

THE CHAIRMAN: No, no.

MR. ROBERTSON: I think that might go a



long way to meet the problem. It really gets back to this: what is a price which is a good price regarding all the interests of Canada.

THE CHAIRMAN: That is correct, but the minute you get into the words of *mutatis mutandis*, you get into conditions under the circumstances that there are and you have, carrying through, looking at it as a permit which is carried, five years later and two years after that again, under everyday conditions you get into a tailspin; you are chasing the devil around the stump, and some regulation or wording is surely required, and I am not saying that what I am just suggesting is the proper one, that fixes that for all time at the granting of the export permit by such a Board as we are talking about and, presumably, that others concerned may have people come and make representations and thorough examination of all the factors.

MR. ROBERTSON: If I may say so, I conceive that as being the way the Board should direct itself in deciding whether or not an export permit should be granted. It should take into account all those factors.

You take a specific example of the Westcoast line. Certainly I think the Board should consider not simply the price which is going to be charged and relate it to other prices, but it also should consider whether or not it is in the



interests of Canada whether a price which makes the line possible, even lower than another price elsewhere, is not justified.

MR. PURDY: Mr. Chairman, if I might make one comment: every bit of pricing recognizes the impact of two sides of the market, one being the value of the thing being sold in the eyes of a mass of buyers and the other thing being the cost of producing it by the producer. That thinking is hidden under the easy term of supply and demand. The demand side means the value of the service to the buyer, and the supply is shaped by the cost of producing it.

By the same token, the price must give some equal weight to the cost consideration, and any pricing that rested wholly on value of services, I think, would be erroneous.

In terms of export of Canadian resources, in my opinion, we must keep our eye on both sides of the equation, both the value of services and the cost side, because we would never want, if there were a very low value existing at this time, for some resource of ours, in the United States, we will say, we would not want to do our pricing of that resource solely on the value of service consideration. We would want to look at the reasons and say, "Hang on. This costs Canada so much."

Those are pretty hard terms to define



specifically but we would not want to see our resources thrown out rapidly wholly on the value of pricing.

THE CHAIRMAN: Let me stop you there. I surely did not convey that impression.

MR. PURDY: No. I am sorry. You did not; but I just wanted to emphasize that balance.

The quandary is a difficult one because both value of service and cost of providing the thing have to be taken into account.

Now, I think Mr. Robertson would rather join me in saying that we here have emphasized too much the cost side, and you properly have pointed out to us that we have rather missed the value of service side.

THE CHAIRMAN; Well, I am only thinking of it in relation to your suggested re-draft of regulation 9, that I feel, just quickly, having, as it were, to make up one's mind, let us say, at the moment, that you are no further ahead with this re-draft by reason of inclusion of the words "mutatis mutandis" in that phrase, than you were previously, because it brings us back to just like the conditions were in the first instance. However, I suppose that is a matter of interpretation.

MR. ROBERTSON: It seemed to me that the inclusion of the phrase "mutatis mutandis" did give much wider latitude than the present similar words



but, also, the inclusion of the words "in the opinion of the Board" added a very important feature, it seemed to me, because the way the thing stood before they required absolute proof in a Court.

THE CHAIRMAN: There is no question about that. I see exactly what you mean but I just throw out the other as a possibility that one might consider.

MR. ROBERTSON: If I may say so, Mr. Chairman, we are not the least bit enamoured with this. We felt that it had very serious difficulties before it, but it is just a matter of taking one present further step.

MR. COMMISSIONER HOWLAND: I would like to follow here with a question. I was interested in this willingness on your part to consent to an interference in the market price structure because of a service factor. Now, I understand the law of supply and demand a little. You are prepared, for certain reasons, to interfere with this. Now, this must imply a cost somewhere; somebody is going to have to pay the price for that. For instance, by maintaining the supply in Canada as against export, the price structure is likely, in many cases, to be lower to the producer of gas. Do you feel that when this Board is considering, that they will have to come up against this problem in principle, and on what principle should they resolve it?

MR. ROBERTSON: As we suggest later on,



the Board should perhaps fix that itself, as a guide to itself, a minimum price, having regard only not to what gas is sold for in Canada but also to what its worth is to the American importer and, if a policy of that kind were followed, Canada might be protected from exporting gas today at a price much less than what it could get in future years' time.

MR. COMMISSIONER HOWLAND: How would you determine the worth of gas to the American market apart from an offer to buy and, equally, how would you determine the worth of gas to Canada in order to keep it rather than export it?

MR. ROBERTSON: I suppose, dealing with the first part of that, the value to the Americans, apart from what they are prepared to pay for it, could be estimated by our Board by knowing where the United States gas was available for, what area, at what price and what it would cost to get it there.

MR. COMMISSIONER HOWLAND: There was one occasion which we heard about where the F.P.C. determined not to accept an import licence and, in that one connection, I believe they turned down an application which affected the price structure somewhat.

MR. ROBERTSON: Yes. Of course, if the F.P.C. turned the thing down, it would all be academic, anyway.



Now, would you refresh my memory on what your second aspect was?

MR. COMMISSIONER HOWLAND: They are both interrelated, Mr. Robertson. How would you determine the worth of gas to Canada if you did not have -- well, I think this is probably going to be pretty academic, too, to pursue it further.

MR. ROBERTSON: Shall I read on, Mr. Chairman?

THE CHAIRMAN: Please.

MR. ROBERTSON: We do not want to be thought too solicitous of the interests of exporters and importers of gas. We believe that the first consideration must always be the safeguarding of Canada's own requirements. Subject always to that, we are anxious to see Canada's economy stimulated by the development of its petroleum resources and to see its balance of trade with the United States improved by the export of some of those resources. Pipelines can be built only to draw gas from one specific area or grid and to carry it to another specific area. They cost huge sums of money. That money will not be forthcoming for any proposed line unless it can be demonstrated that the cost of the line will be amortized over a period approximating the life of the bonds charged on the line. That demonstration cannot be made unless a long-term supply of gas at a fixed or easily determinable price is assured. Subject



to the safeguards for Canadian consumers that an Energy Board will afford in its administration of the legislation we suggest, the would-be builders of pipelines should know precisely where they stand.

We shall deal later in this brief with the regulation of prices.

Returning to the subject of legislation, there appears to us to be some lack of complete control in the present Exportation of Power and Fluids and Importation of Gas Act and its Regulations and in the suggestion for revision we have made above:

1. Unless the exporter (or his supplier) also sells gas for consumption in Canada, there can be no minimum export price, either generally or specified in the licence.
2. Even where the exporter does also sell for consumption in Canada, the local price which constitutes the criterion may be too local to constitute a good standard.

These possibilities suggest that consideration should be given -- and we think that it should -- to allowing the Energy Board wider latitude. For example, perhaps it should be at liberty, when fixing minimum export prices, to take into consideration one or more of the following:-

- (a) The prices paid anywhere in Canada for large volumes of gas supplied to Canadian industries with which industries in the U.S. that will



- consume the exported Canadian gas may be expected to compete.
- (b) The benefit to Canadian distributors (and their customers) which might result from their supplier in Canada having to charge for gas that he exports the full value of the gas to the purchaser.
- (c) The possible advantage of fixing a basic minimum price for all gas exported from Canada. The Board might say, "We will license no export whatever at less than x cents per Mcf, and, whenever the circumstances warrant it, we will specify a price which is an appropriate number of cents higher than X." Here x would be set after a comprehensive examination of large-volume sale prices in both Canada and the U.S.

We do not necessarily urge that any of these things should be done, because we have not enough information at our disposal for firm recommendations; but we suggest that they are an area for investigation and possible resulting action by this Commission and the Energy Board.

The Background of Westcoast's Prices to the B.C. Electric

The B.C. Electric and its subsidiaries have been in the gas business for a long time. They started supplying Victoria with manufactured gas in 1862 and supplying Vancouver with manufactured gas in 1886.



As soon as it appeared possible that a supply of natural gas might be made available for distribution in all or part of the areas it serves, the B.C. Electric took up the matter actively. Its efforts extended over a good many years.

It was in about May, 1947 that the group who ultimately formed Westcoast first approached the B.C. Electric with a plan to pipe gas from the Peace River areas of Alberta and British Columbia to southern British Columbia, Washington and Oregon. By January, 1948 several different individuals or groups were proposing to build pipelines to serve those territories, and in that month there was a meeting in Seattle of representatives of the three principal distributors concerned -- the B.C. Electric, Seattle Gas Company ("Seattle Gas") and Portland Gas and Coke Company ("Portland Gas") -- to discuss those various persons and groups.

By May of 1948 the distributors were working on natural gas market surveys. By about that time Northwest Natural Gas Company ("Northwest Natural") was pressing a project for the construction of a line from southern Alberta into Idaho, westward to Seattle, and thence north to Vancouver and south to Portland.

At a meeting of the three distributors in June, 1948 they agreed that they should bargain as a team with any pipeline company. They also discussed



whether there should be a common price from any pipeline to all three distributors, or different prices. Then or shortly after it became understood that, from whichever direction gas came, the same price should be payable by all three distributors at the respective points where they took delivery from the pipeline company. Among other things, this was in recognition of the fact that the market which each of them constituted was essential to the launching of any project. Enquiries by B.C. Electric at the Federal Power Commission in Washington indicated that common prices in similar circumstances were not unusual in the United States. Another reason for the understanding was that -- the source of the gas and the route of the line not being known -- it was not known in what order the distributors would draw gas from the line, and a different arrangement could have cut either way.

In late 1951 the Alberta Conservation Board held hearings upon applications under the Gas Resources Preservation Act of Westcoast and its subsidiary, of Northwest Natural and its subsidiaries, of Western Pipe Lines, of Prairie Pipe Lines Limited and its subsidiary, of McColl Frontenac Oil Company Limited and Union Oil Company of California, and of Canadian Delhi Oil Limited and Trans-Canada Pipe Lines Limited. Upon those applications the Conservation Board made a report on 29th March, 1952



refusing the applications of all but Westcoast and authorizing it to export gas from the Peace River area of Alberta.

On 28th April, 1952 representatives of Westcoast met representatives of Seattle Gas, Portland Gas, and B.C. Electric in Vancouver and outlined its project to build a pipeline with an ultimate capacity of about 400 MMcf p.d. Westcoast suggested that it would charge a price in the range of 35¢ per Mcf at 70% load factor. Without agreeing to that price, the distributors said that, if it was to be charged, they would like it broken down into a demand charge of \$38.22 per annum and a commodity charge of 20¢.

Actually, Mr. Chairman, those figures do not work out to 35¢ per Mcf at 70% load factor, but that was a figure that was mentioned at the time.

Subsequent market surveys were based on these charges. B.C. Electric's survey indicated that, buying gas at these prices, it could develop, expand and hold a substantial market.

Following this a number of applications were made to the Federal Power Commission of the United States for permission to supply the Pacific Northwest states with natural gas, and ultimately the applications of the following were consolidated for hearing:



Northwest Natural,

Pacific Northwest Pipeline Corporation
("Pacific Northwest" - Mr. Fish's project),

Westcoast Transmission Company, Inc.
(The American subsidiary of Westcoast
Transmission Company Limited),

Glacier Gas Company,

Northern Natural Gas Company,

Trans-Northwest Gas, Inc.,

Colorado Interstate Gas Company.

Northwest Natural's application was in respect of gas originating in southern Alberta; Pacific Northwest's application was in respect of gas originating in the San Juan Basin of New Mexico and Colorado; and Westcoast's application was in respect of gas originating in the Peace River area of Alberta and British Columbia.

Before these applications were disposed of, Seattle Gas had become weary of waiting for Canadian gas and fearful that limitations on the rights to export from Alberta and Canada would jeopardize its continuity of supply; and it accordingly threw its weight vigorously behind Pacific Northwest. B.C. Electric threw all the weight it could behind Westcoast: only Westcoast had a permit to export from Alberta, and Pacific Northwest did not propose to serve Vancouver. Several representatives of B.C. Electric gave evidence before the Federal Power Commission, as they had done also before the Board of Transport Commissioners for Canada. There was introduced in



evidence before the F.P.C. the letter dated 5th June, 1952 that is set out in Appendix "A" hereto. The letter dated 31st May, 1952 to which it was a reply is also set out in Appendix "A".

Now, the earlier of those letters is one from Westcoast to the B.C. Electric which outlines the Westcoast project, describes its reserves of gas, speaks of the adequacy of markets, says that the prices to distributors in British Columbia and the United States are to be the same; says that the price, they thought, would be 35¢ per Mcf and speaks of export permits to be got or already got from Canada, and then it asks for an expression of B.C. Electric's willingness to purchase gas from Westcoast on those terms.

Now, the reply is not very long and I think I might read it.

THE CHAIRMAN: Well, that is the one where you set out the conditions --

MR. ROBERTSON: Set out the conditions.

THE CHAIRMAN: We have read it, Mr. Robertson.

I think, however, that this might not be a bad place to adjourn for lunch. You have got the correspondence before the Commission, unless you want to go down and finish the section with which you have been dealing.

MR. ROBERTSON: Yes, Mr. Chairman.

On 18th June, 1954 the F.P.C. delivered



its Opinion No. 271 granting Pacific Northwest's application and dismissing all the others. The principal reason for dismissing Westcoast's application was (Opinion, pp.24 and 25) that no segment of the American people should have to rely on natural gas imported from a foreign country without some inter-governmental agreement assuring the continued adequacy of its supply.

Some six months later B.C. Electric was told that Westcoast and Pacific Northwest had concluded an agreement (that of 11th December, 1954) that would make possible the building of a line from the Peace River area to the border. (B.C. Electric took no part in the negotiations leading to that agreement.) Negotiations between Westcoast and B.C. Electric followed and they resulted in the service agreement of 18th February, 1955.

THE CHAIRMAN: Thank you very much, Mr. Robertson. The Commission will now adjourn its hearing until 2 o'clock.

---Whereupon the hearing adjourned, at 12.35 p.m., until 2 p.m.



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---On resuming at 2.00 p.m.

THE CHAIRMAN: The Commission will now resume its hearing.

Mr. Robertson, you were at page 19, I think.

MR. ROBERTSON: During these negotiations B.C. Electric had in mind the agreement of 11th December, 1954, the charges which had been discussed with Westcoast in 1952 and on which B.C. Electric had predicated its subsequent market surveys, the letters set out in Appendix "A" to this brief, and the terms of the contracts that Pacific Northwest proposed to make with Seattle Gas and Portland Gas. B.C. Electric did not like to have to pay a 32¢ price (at 90% load factor) when Pacific Northwest was to pay only a 22¢ price; however, B.C. Electric recognized the position of Westcoast that had resulted from the F.P.C.'s decision which denied Westcoast the status of a primary supplier and left it only an opening as a subsidiary supplier of the American market. On the other hand, B.C. Electric was able to get Westcoast to agree on terms more favourable to B.C. Electric than the terms Seattle and Portland were able to obtain from Pacific Northwest. The four principal differences were these:

1. B.C. Electric was guaranteed the very large quantity of 130 million c.f.p.d.: larger than either Seattle or Portland got under contract.



2. The demand charge was based, not on contract demand - a charge based on 130 million c.f.p.d. would have been ruinous - but on measured demand, that is, the quantity actually used by B.C. Electric from time to time.

3. The price of interruptible gas to B.C. Electric was not 25¢ - the price which Seattle and Portland had to pay - but 22¢.

4. The prices and terms in B.C. Electric's contract were to apply for a period of twenty years, regardless of costs encountered by West-coast or any change in economic conditions.

While B.C. Electric realized that Pacific Northwest's price of 22¢ was to be compared with its own price, it was otherwise satisfied with its agreement: it was better than Seattle's and Portland's agreements, and it fixed a price on which B.C. Electric was satisfied (as a result of the market estimates, brought up to date, which B.C. Electric had predicated on the rate that Westcoast had suggested in April of 1952) that it could meet the competition of other fuels and sell gas to its customers at prices substantially lower than those it was then charging for its manufactured gas. The event has proven this to be so: in 1957 (the first year of natural gas distribution), B.C. Electric sold 114.3% more therms of gas than it sold in 1956, while its gross revenue from the sale of gas increased only 27.2%.



Following the making of the service agreement with Westcoast, B.C. Electric was able to negotiate with Pacific Northwest and Westcoast an agreement dated 26th April, 1955 ("the interim agreement") under which, from the time when Pacific Northwest's gas reached the border and until Westcoast was ready to deliver Peace River gas to B.C. Electric, Pacific Northwest delivered to Westcoast, for re-delivery to B.C. Electric, such quantity of gas as B.C. Electric might require; the gas so delivered was to be paid for in accordance with Pacific Northwest's large volume DL-1 rate, the rate that Seattle Gas and Portland Gas paid. (B.C. Electric also had to pay a Canadian customs duty of 3¢ per Mcf.). Under this agreement B.C. Electric first had natural gas for its customers on 6th November, 1956 instead of having to wait until Westcoast's deliveries started on 2nd October, 1957; this gave almost a year in which to build up a large load for Peace River natural gas when it became available. In addition, B.C. Electric got the other two parties to protect B.C. Electric's continuity of supply by inserting in Article II of the service agreement appended to the interim agreement a paragraph (to continue in effect for 20 years from 6th November, 1956) reading as follows:

" SECOND: Each of Buyer and Seller agrees to furnish to the other from time to time emergency supplies of gas in the event of and



during an interruption of service on the system of such other. Neither Buyer nor Seller shall be required to furnish emergency supplies of gas to support any but the firm obligations of the other nor to reduce the supply of gas to any of its firm customers, nor to reduce the supply of gas to any of its interruptible customers beyond the extent permissible under its contracts with them respectively."

At B.C. Electric's request Pacific Northwest and Westcoast entered into a service agreement dated 17th October, 1956 for a supply of interruptible gas by Pacific Northwest for B.C. Electric for a period in effect corresponding with the term of the interim agreement. Article III read as follows:

" Buyer agrees to pay Seller for all natural gas service rendered under the terms of this agreement in accordance with Seller's Rate Schedule I-1 as filed with the Federal Power Commission and as such rate schedule may be amended or superseded from time to time. This agreement shall be subject to the provisions of such rate schedule and the General Terms and Conditions applicable thereto on file with the Federal Power Commission and effective from time to time, which by this reference are incorporated herein and made a part hereof."



Under this Article the price of interruptible gas was increased on 5th September, 1957 from 25¢ to 28.6¢ per Mcf.

Early in 1957, B.C. Electric decided that it would have to build a thermal (steam) plant in order to meet the increased demand for electricity in its service area. The remaining hydro-electric sites available to it were either too small or too expensive to develop. B.C. Electric's studies also showed that the delivered price of coal was uncertain and that oil could not be contracted for for more than a few years at a time. It, therefore, approached Westcoast with a view to obtaining a 20-year supply of natural gas. Negotiations resulted in a second service agreement, dated as of 3rd October, 1957. It provides for delivery of up to 144 million c.f.p.d. The price for the first 96 million c.f.p.d. is fixed at a demand charge of \$3.21 per month per Mcf of contract demand and 20¢ per Mcf of gas actually delivered (the same figures as in the first service agreement), subject, however, to escalation, limited to 2¢, in certain events. The price for the 48 million c.f.p.d. beyond the first 96 million was left to be negotiated after the giving of notice increasing the quantity beyond 96 million.

B.C. Electric was reluctant to agree to pay the price specified for the first 96 million, but there seemed to be no alternative: while West-



coast was bound to sell for export at the price of 22¢ for 300 million c.f.p.d., it was able to persuade B.C. Electric that its project could not afford to sell gas to B.C. Electric at that price; the additional 100 million c.f.p.d. of gas which Phillips Petroleum Company had contracted (under the "Peace River Gas Purchasing Agreement" dated 22nd October, 1956) to sell to Westcoast was only available if it was to be exported to Pacific Northwest; it appeared that further supplies of gas could only be obtained by paying higher average prices to the producers; and the fact that Westcoast's gas purchase contracts all contained favoured nations' clauses added to the complications. As the prices proposed were firm and would enable B.C. Electric to generate electricity in quantities that should tide it over until one of the big rivers can be developed for hydro purposes, as the prices were lower than the current prices of oil, as deliveries would commence as and when required, as Westcoast was prepared to give a twenty year contract, and as Westcoast was willing to agree that the actual price to be charged would not exceed the price at which additional volumes of gas might be exported from Canada, in accordance with the following section inserted in the agreement (in Article VII):

"5. If and when from time to time Seller sells at or near the International Boundary between



British Columbia and the United States natural gas which has been produced in the Peace River area of Alberta or British Columbia, and transmitted through the Peace River Pipe Line System, to any purchaser other than Buyer for exportation directly or indirectly, or to any purchaser other than Buyer who actually exports it, under any contract (not including the agreement of 11th December, 1954 between Seller and Pacific Northwest Pipeline Corporation during its original term of twenty years) at rates more favourable to the said purchaser than those specified by or fixed pursuant to the preceding sections of this Article are to Buyer, Seller shall give Buyer the opportunity to have such more favourable rates and the terms and conditions of the said contract affecting their application substituted for the rates so specified by or fixed pursuant to the preceding sections of this Article and for the corresponding terms and conditions of this agreement, respectively, *mutatis mutandis*.",

B.C. Electric felt that the terms were acceptable.

However, during the negotiations B.C. Electric told Westcoast that it would strenuously oppose the granting of any licence under the Exportation of Power and Fluids and Importation of Gas Act



for the exportation by Westcoast to Pacific Northwest at the price of 22¢ per Mcf of the 100 million c.f.p.d. of gas in addition to the 300 million c.f.p.d. called for by section 1 of Article IV of the agreement of 11th December, 1954. B.C. Electric now urges this Commission to make a recommendation accordingly in its report, that recommendation to be acted upon until a National Energy Board is formed and functioning. The recommendation should not, of course, apply only to a price of 22¢: it should extend to that price and any other price "lower than a price which, in the opinion of" the Canadian authorities controlling export "is fairly comparable, mutatis mutandis, with the price at which the licensee or his supplier sells gas for consumption in Canada."

Arising out of this history and looking to the future, we would add this: In the circumstances existing in late 1954, when Canadian gas was regarded by the authorities in the United States as an inferior source of energy, Westcoast could do no better than it did when it agreed to the price of 22¢, and the authorities regulating the export were in the same position. Just the same, the deal was not entirely a happy one for Canada. The American situation and attitude have now changed. Along with Washington and Oregon, California has a great need for Canadian gas. We can see good reason why, if



Pacific Northwest wants more than its 300 million c.f.p.d. from Westcoast, it should be required to pay such a price for the additional quantity that the average cost of all its gas purchased from Westcoast will approximate a reasonable price at the border, having regard to the price at which gas for Canadian consumption is sold. Alternatively, it might be asked, as a condition of additional export, to renegotiate the price of its 300 million c.f.p.d. from Westcoast in the light of current, and what appear to be more permanent, conditions. How far this can be pushed must depend on the circumstances existing from time to time. In 1954, Pacific Northwest was able to take advantage of the situation created by the Federal Power Commission. It will be equally legitimate for Canadians to take advantage of the competitive situation whenever it is that the Americans need Canadian gas badly.

Should There be Regulations of Prices Charged by Gas Pipeline Companies?: Elsewhere in this brief it is proposed that two of the major duties of an Energy Board affecting natural gas be: (1) to restrict quantities exported under permits to such as are surplus to Canadian needs; and (2) to establish proper relations between the prices at which gas is sold by transmission companies for export and for domestic use. The obvious question now presents itself: should such an Energy Board exercise



a price-fixing control over the sale of gas by Canadian pipeline companies to Canadian purchasers?

Price fixing is the basic core of the typical public utility regulation that is applied to many utility services. The attitude we shall express on the extension of this sort of regulation to pipeline sales of gas in the domestic market is based on the belief that such regulation should not be extended to any field unless there appears to be an obvious and specific need for it. The regulatory process inevitably delays putting decisions into effect. Considerable costs are incurred by both the regulator and the regulated companies to establish all the information needed for regulation. It seems reasonable to conclude that there is need for regulation where the private parties involved in the pricing situation are, on the one hand, a large corporation supplying essential utility services and, on the other hand, thousands of relatively small buyers of these services. But this conclusion does not hold in the natural gas business, where pipeline companies are dealing with distributing companies, and each side is able to take care of itself. Experience of the B.C. Electric in the negotiation of prices for gas from pipeline companies (described elsewhere in this brief) convinces us that reasonable price fixing (in the circumstances existing) can be achieved by the management parties involved and



there is no "obvious and specific need" for the introduction of any element of public management in the price-fixing process for domestic sale of gas between parties of this order. If such a need should ever develop in the future, appropriate legislative action can be taken then.

If this conclusion is sound, the many other features of public utility regulation that follow on from the price-fixing feature need not develop. For example, control over corporate structure and corporate financing need not be provided for and can be left to the scrutiny and test of investment market forces.

Referring now to B.C. Electric's specific circumstances, it has two long-term contracts with Westcoast; the first guarantees a very large quantity of gas (up to 130 million c.f.p.d.) until 1977 at a fixed price; the second guarantees up to a still larger quantity (144 million c.f.p.d.) until 1981, of which 96 million is at a fixed price. B.C. Electric does not want to jeopardize the maintenance of these prices as maxima. While on the one hand regulation might result in these prices being reduced sometime during the term of the contracts, regulation might equally well result in their being increased. (Under regulation by the F.P.C., Pacific Northwest's DL-1 rate to Seattle Gas and Portland Gas was on 5th February, 1958 increased from \$3.21 and 20¢ demand



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and commodity charges to \$3.53 and 21¢ respectively; this represents an increase of 2¢ per Mcf at 90% load factor.). For example, if Westcoast were to double or triple its facilities, each time at a unit cost greater than that of the first facilities, and it were allowed to earn a return calculated upon the whole of its rate base, the resultant rates might exceed the rates in the contracts; or rising field prices applicable to additional quantities of gas would be reflected in the regulated price of gas sold under the original contracts.



Another aspect of the matter that we have considered is how effective could regulation be if it did not include regulation of the prices chargeable by producers to the pipeline for gas at the wellhead or gathered in the field. Here in Canada an attempt by Parliament to regulate these prices would almost certainly run into constitutional difficulties; while in the United States recent and current events point to the practical difficulties in the way of regulating producers' prices and suggest that such regulation is by no means an unqualified blessing.

On balance, we have come to the conclusion that it will be better for B.C. Electric's customers if the price chargeable by Westcoast for gas is not subject to regulation.

For all the reasons that we have indicated, we submit to this Commission that it should recommend against the regulation of the price of gas chargeable by pipeline companies to Canadian distributors.

If there is to be Price Regulation, What Form Should it Take?: If the Commission reaches a conclusion on price regulation contrary to that which we urge, the question will arise, what form should regulation take? At the outset we urge that, whatever general form it takes, it should in some way protect the long-term contracts of Canadian dis-



tributors who have made such contracts. Using B.C. Electric's specific case as an example, the legislation should provide that the prices in its contracts shall not be revised upwards as a result of anything not directly connected with Westcoast's original line, through which the contracts contemplate that it will be served. Corresponding protection for Westcoast would provide that the prices shall not be reduced unless it is earning more than a reasonable return on that particular line.

In connection with price regulation we refer again to what has been indicated elsewhere in this brief about keeping the procedure before the National Energy Board simple, and we urge the need for expedition in disposing of the Board's business.

Field Prices: Reference has been made, in passing, to field prices. In the United States, they have been rising much more rapidly than has the cost of long-distance transmission. Similar trends are in prospect in Canada. B.C. Electric, like other Canadian distributors, is therefore concerned about the effect of rising field prices on the delivered price of gas and the manner in which these higher costs are passed on from the producer to the consumer.

The situation in which we find ourselves is this: Our supplier, Westcoast, has entered into contracts with producers in the Peace River area of



British Columbia and Alberta which contain a "favoured nations clause". So far, Westcoast has been able to obtain its supplies at a basic field price which, subject to certain deductions at limited throughputs, starts at 10¢ per Mcf and rises to 12½¢ per Mcf over a twenty-year period. Sooner or later, Westcoast may well have to pay more for its gas. When the time comes for B.C. Electric to ask Westcoast for additional quantities to meet the increasing demands of its customers, and when the time comes for it to negotiate the price for the last 48 million c.f.p.d. under its thermal plant contract, B.C. Electric may well be asked to pay higher prices, not only to cover probable higher field prices of the gas which it requires, but also to provide sufficient revenue to satisfy the probable increase in average price on all the gas produced in the Peace River area.

Low wellhead prices were essential to the launching of Westcoast's original pipeline project. Drilling and other costs have, however, been rising. New contracts are also being written elsewhere in Alberta at prices well above those in effect in the Peace River area. Some of the larger producers are already asking more for their gas. As we see no immediate prospect of further gas being available for export to the United States from this area, the Canadian consumer will probably be required to "up-



grade" the field prices on all gas produced, including that needed for the present export contract. B.C. Electric, being the largest British Columbia distributor concerned with this problem, is therefore anxious to draw this situation to the attention of your Commission. It recommends that consideration be given to enabling authorized Canadian distributors on occasion to purchase their own supplies of natural gas in the field and have them wheeled by pipeline companies to the areas of distribution, and in this way avoid paying higher field prices on natural gas previously contracted for consumption in the United States.

This situation stems largely from the fact that the original producers who signed up with Westcoast were willing to take low prices in the early years in order to get the line built. The 22¢ export price at Huntingdon placed a comparatively low ceiling on the return which they could initially expect in the field. However, it was apparently hoped that, as sales increased in Canada and as further volumes of gas were exported to the United States, production from this source would begin to earn a return more in line with its true economic worth. Without a favoured nations clause, the original producers would have been penalized. But, with a favoured nations clause and a fixed 22¢ export price at Huntingdon on 300 million c.f.p.d. of gas, it is the Canadian



purchaser alone of pipeline gas who, by coming later in the scheme of things, must help to raise field prices in the Peace River area to a level more in line with that prevailing elsewhere in North America.

Another and perhaps even more important change that has occurred within the last few years has been indicated elsewhere in this brief: In 1954, when Pacific Northwest's application to import Peace River gas was finally approved by the U.S. Federal Power Commission, Canada was still regarded as a supplementary source of supply. Now, however, natural gas from the Peace River area is in fact supplying the prime requirements of Washington and Oregon. Applications are also being made to move large additional quantities from Alberta into Montana, Idaho and California. It is the intention both of Pacific Northwest and of the Pacific Gas and Electric Company to sell this gas to American consumers on a firm, long-term basis. In our opinion, the export prices at the International Boundary should properly reflect these altered circumstances.

Whether this conclusion can fairly be applied to the original 300 million c.f.p.d. standing by itself is open to question. However, the conclusion is inescapable that, if the export price is not increased, Canadian consumers drawing gas from West-coast's Peace River line will, alone, be required to pay the higher prices necessary to provide the additional



funds to maintain a high level of exploration and development in northern British Columbia and Alberta.

The End Use of Natural Gas: Some thought should be given to the end use served by natural gas. It may be sold retail for space heating and other residential and commercial purposes. It can also be consumed by industries which make special use of its qualities, either as a raw material or as a relatively clean and controllable form of energy. These, it is often said, are the premium uses to which natural gas can be applied. Frequently it is also sold at a lower price and on an interruptible basis to heavy industries in competition with other bulk fuels, such as residual oil and coal. Finally, it may be employed in the generation of electricity. B.C. Electric is of the opinion that interruptible sales to industry are desirable in that they permit the heavy investment outlays in transmission and distribution facilities to be written off over a larger volume of sales. It is also of the opinion that electricity is a highly desirable form for energy to take. Conversion of natural gas into electric power, either for local consumption or for export, is in essence a manufacturing industry. Considerable value is therefore added. Also, natural gas as a resource is thereby up-graded and made available to a wider range of consumers than would be the case were it confined to applications which can usually be served



by fuels other than electricity.

Developing this thought further, and bearing in mind that electricity can be transmitted no less easily than natural gas, such firm export commitments of gas as may lead to the generation of electricity on the other side of the International Boundary should, in our view, be prohibited in their entirety: if Canadian gas is to be manufactured into electricity, the manufacturing should be done in Canada.

Industries which use natural gas intensively find it advantageous to establish themselves where their supply of fuel or raw material for the manufacture of petro-chemicals is both low in cost and can be guaranteed for 20 or 30 years ahead. Limitations on end use contained in a licence to export natural gas could, therefore, influence decisions whether to establish certain gas-using plants on the Canadian or the American side of the International Boundary. So could the minimum price prescribed in a licence. B.C. Electric, therefore, urges that the Canadian authority which is eventually responsible for the granting of export licences should take alternative opportunities for Canadian economic development into account.

At this point I would ask the Commission to let me read into the record an insert which has been distributed:



Elsewhere mention has been made of the possible constitutional problems that would arise if a National Energy Board sought to regulate field prices; but those problems should not preclude the seeking of complete information by the Board on all aspects of field prices. An example will show the importance of this:

Large supplies of gas in the ground are owned by some of the major internationally-controlled oil companies which are not immediately dependent upon the sale of those supplies for revenue. This is particularly true of fields in northeastern British Columbia. The rate of growth of these reserves and their immediate availability for Canadian consumption are, therefore, subject to several external influences. One is the extent to which the oil with which the gas is associated can be marketed in the United States; another is the manner in which export promotions may be able to drive up the field prices for natural gas in Canada. The longer-term expectations of major oil companies, both with regard to the market for oil and the extent to which Canada may become a supplier of natural gas to the United States, will, consequently, be matters with which a future National Energy Board should familiarize itself, with a view to



trying to insure that the resultant policy of those companies, may not be detrimental to the interests of Canada.

Export Taxes: Until it was repealed in 1955, the Electricity and Fluid Exportation Act (R.S.C. 1952, chapter 93) provided that the Governor-in-Council might, by proclamation, impose export duties not exceeding 10¢ per 1,000 cubic feet on natural gas exported from Canada. The omission of this provision from the new Exportation of Power and Fluids and Importation of Gas Act (S.C. 1955, chapter 14), together with the altered wording in the new regulations made under it which permitted licences to export gas to be granted for more than one year at a time, greatly facilitated the financing and construction of the Westcoast project. It is submitted that it would be a mistake to restore the power to impose an export tax. Certainly such a power is not needed in order to control export under a system which prohibits it except under licence; and, if at any time it becomes necessary for revenue to be raised from such a source, Parliament can act. But Parliament itself should not impose such a tax on energy or sources of energy alone; almost all other commodities may be exported without attracting taxes, and we cannot see any reason why there should be discrimination against energy or sources of energy.



We urge this Commission to declare itself to be opposed to the re-imposition of this exceptional levy on Canadian trade.

In the event that an export tax on natural gas is revived, we are of the opinion that it should be applied in such a way as to increase the price paid by importers in the United States. It should not, as is presently the case with electric power, serve to reduce the income of the Canadian exporter. B.C. Electric is also of the opinion that, in circumstances where the export traffic is in such a position that it could afford to absorb an export tax, the circumstances should rather be used in such a way as to directly reduce the rates paid for natural gas by purchasers in Canada.

Drafting of Legislation: It is probable that, after this Commission has made its report, the Government will give instructions for the drafting of legislation. All too often those who are asked to prepare legislation have had no opportunity to familiarize themselves with all the ramifications of the subject matter of the legislation. We strongly urge that, after legislation is drafted and before it is introduced, an opportunity be given to interested parties - say, for example, those who have presented briefs to this Commission - to examine the draft and make suggestions.



All of which is respectfully submitted
on behalf of British Columbia Electric Company
Limited.

THE CHAIRMAN: Thank you very much, Mr.
Robertson.

Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman.

Now, I had proposed to ask these questions
and you can decide amongst yourselves which one will
answer the question, but until the Reporter gets
accustomed to the sound of your voice, will you please
say who is answering the question?

I want to direct your attention to this
part of your brief which you have just been reading
about and which begins on page 19. On page 19, about
eight lines down from the top of the page, you say:
"B.C. Electric recognized the position of Westcoast
that had resulted from the F.P.C.'s decision which
denied Westcoast the status of a primary supplier and
left it only an opening as a subsidiary supplier of
the American market."

Now, am I correct in thinking that immed-
iately prior to the F.P.C. handing down its decision
in favour of the Pacific Northwest, Westcoast was
contemplated as a Canadian transmission company taking
gas to Huntingdon, and a wholly-owned subsidiary of
Westcoast, Westcoast Inc., would import it and dis-
tribute it in the United States?



MR. ROBERTSON: Yes, but I think the situation was a little complicated by a company called Trans Northwest which I am not too clear about.

MR. PATTILLO: What I want you to tell me -- I understand the F.P.C.'s decision had only said that the American wholly-owned subsidiary could not import.

MR. ROBERTSON: Yes, it was only Westcoast Inc. which was an applicant before the Power Commission; Westcoast Limited was not.

MR. PATTILLO: Where was there anywhere any decision which denied Westcoast the status of a primary supplier and left it only an opening as a subsidiary supplier of the American market?

MR. ROBERTSON: The Westcoast project was made up of Westcoast Limited, of Westcoast Inc., Westcoast Limited bringing the gas to the international boundary, and Westcoast Inc. distributing it in Washington. When Westcoast Inc.'s application was dismissed, then the whole of Westcoast's project fell to the ground.



MR. PATTILLO: Yes, I agree with that but that is not what you say. You say that it denied it the status of a primary supplier and left it only an opening as a subsidiary supplier of the American market. It did not leave it any opening at all, did it?

MR. ROBERTSON: It was able to make an opening.

MR. PATTILLO: Oh, that followed subsequently, but at the time that decision came down, the idea was, was it not, that Pacific Northwest was going to buy its gas from the five corners and transmit it up through the States as far as the border?

MR. ROBERTSON: Yes.

MR. PATTILLO: And that was the scheme that was approved by the F.P.C.?

MR. ROBERTSON: Yes.

MR. PATTILLO: And there was not any contemplation that Pacific Northwest was going to buy any gas from Westcoast at all?

MR. ROBERTSON: Not at that time.

MR. PATTILLO: No.

MR. ROBERTSON: But the decision of the Federal Power Commission, which is the basis for what we say here, reads, beginning at page 24, as follows:

"The Natural Gas Act imposes upon this Commission

"the duty to protect the American public in all



"possible respects through the regulation and
"control of the transmission and wholesale sale
"of natural gas. It is most essential that the
"domestic consumers and much of the industry in
"any area into which natural gas is introduced
"be reasonably assured of a firm supply, so far
"as is possible through such regulation and
"control. We would fail in our duty if we did
"not jealously retain and exercise our full legal
"powers to this end. Therefore, in granting any
"application under Section 3 of the Act for the
"importation of natural gas, the Commission must
"not fail to give the fullest possible protection
"to all the prospective consumers.

" Such protection would not be afforded to any
"segment of the American people if its sole source
"of essential natural gas were through importation
"from a foreign country without some intergovern-
"mental agreement assuring the continued adequacy
"of its supply. Otherwise, all control over the
"production, allocation and transportation to our
"border of such natural gas would be in the hands
"of agencies of foreign governments . . . "

et cetera, et cetera.

Now, there the F.P.C. precluded the imported
Canadian gas as the primary source of supply - -

MR. PATILLO: Not as the primary, but as
the sole source of supply.

1914

1. The first of the year was a very dry one.

2. The second of the year was a very wet one.

3. The third of the year was a very dry one.

4. The fourth of the year was a very wet one.

5. The fifth of the year was a very dry one.

6. The sixth of the year was a very wet one.

7. The seventh of the year was a very dry one.

8. The eighth of the year was a very wet one.

9. The ninth of the year was a very dry one.

10. The tenth of the year was a very wet one.

11. The eleventh of the year was a very dry one.

12. The twelfth of the year was a very wet one.

13. The thirteenth of the year was a very dry one.

14. The fourteenth of the year was a very wet one.

15. The fifteenth of the year was a very dry one.

16. The sixteenth of the year was a very wet one.

17. The seventeenth of the year was a very dry one.

18. The eighteenth of the year was a very wet one.

19. The nineteenth of the year was a very dry one.

20. The twentieth of the year was a very wet one.

21. The twenty-first of the year was a very dry one.

22. The twenty-second of the year was a very wet one.

23. The twenty-third of the year was a very dry one.

24. The twenty-fourth of the year was a very wet one.

25. The twenty-fifth of the year was a very dry one.

26. The twenty-sixth of the year was a very wet one.

27. The twenty-seventh of the year was a very dry one.



MR. ROBERTSON: Sole, if you like. They left it open for Westcoast to come in as a secondary source of supply.

MR. PATTILLO: Well, as one of the sources of supply?

MR. ROBERTSON: All right.

MR. PATTILLO: Now, at page 19 of your brief you say here:

"B.C. Electric was able to get Westcoast to agree
"on terms more favourable to B.C. Electric than
"the terms Seattle and Portland were able to
"obtain from Pacific Northwest."

Now, is there anything strange about that? Pacific Northwest, in buying gas from Westcoast at the border, according to the information we have received before, estimated it was going to cost them 10¢ to transmit it from the border to San Francisco.

You knew about that?

MR. ROBERTSON: Not at the time.

MR. PATTILLO: You did not know about it at the time. Well, at the time that you were doing this negotiating with Westcoast, did you then -- or is this hindsight -- did you then consider you were getting terms more favourable than Seattle and Portland were getting at that time from Pacific Northwest?

MR. ROBERTSON: Yes.

MR. PATTILLO: You thought you were getting better terms?



MR. ROBERTSON: Certainly.

MR. PATTILLO: At the time you made this negotiation, did you examine the contract between Westcoast and Pacific Northwest?

MR. ROBERTSON: Yes.

MR. PATTILLO: Did you make any calculations as to the costs that were going to be imposed on Westcoast in fulfilling that contract with Pacific Northwest?

MR. ROBERTSON: My recollection is that Westcoast produced figures which we examined.

MR. PATTILLO: And did you appreciate them that at least it could be argued that, on your contract, the contract that you were entering into, the B.C. Electric consumer was going to be subsidizing this contract with Pacific Northwest?

MR. ROBERTSON: It all depends on the sense you give to "subsidizing". If you mean by "subsidize" that Pacific Northwest is paying less for the gas than we are paying, that is right; but there is also the aspect of it, that without the Pacific Northwest contract it appeared to us that there would not be any gas for us, so it would not be a question of comparing prices at all; there would not be any price.

MR. PATTILLO: They would not be able to build a line unless they could sell gas to the United States as well as to the B.C. Electric?



I accept that, Mr. Robertson, but let me get back to this: Did you, at some time before you entered into this contract with Westcoast, have figures prepared by somebody in your company that clearly showed to you that it was questionable whether the Westcoast contract with Pacific Northwest could be profitable or not?

MR. ROBERTSON: You mean standing by itself?

MR. PATTILLO: Yes.

MR. ROBERTSON: I don't remember.

MR. PATTILLO: Did you have any figures prepared that showed you the prices that you were going to pay were going to make the difference between operating the Westcoast line at a profit or loss?

MR. ROBERTSON: I think Westcoast showed us figures, the effect of which was that, with the price that we were asked to pay, the line would be an economic possibility.

MR. PATTILLO: Did they also show you figures which, if you got the same price as Pacific Northwest, that the line would operate at a loss?

MR. ROBERTSON: No, they didn't show us such figures, but I think it was pretty apparent.

MR. PATTILLO: And had you people made any such figures, yourselves, in your own company, this B.C. Electric Company, this B.C. Electric Company, this large organization?

MR. ROBERTSON: Had we prepared a separate



set of figures for Westcoast?

MR. PATTILLO: Yes.

MR. ROBERTSON: No.

MR. PATTILLO: You did not do any costing at all?

MR. ROBERTSON: We examined their figures.

MR. PATTILLO: And were their figures that you examined made up on the F.P.C. basis of calculating cost?

MR. PURDY: I will have to ask in what respect of F.P.C. regulation.

MR. PATTILLO: Well, you know, Mr. Purdy, that the F.P.C. staff have a method of determining the cost of transmission, making certain charges to demand, certain charges to commodity, making an allowance for a return and arriving at a cost per 100 miles. You have seen such calculations, haven't you?

MR. PURDY: Yes.

MR. PATTILLO: You are familiar with the F.P.C. staff method?

MR. PURDY: Yes.

MR. PATTILLO: Were the figures shown to you by Westcoast made up on the F.P.C. staff method approach?

MR. PURDY: As I remember, that classification of accounts was not of any significance in the cost estimates that we received, but what we received was a typical thing, estimates of revenue under



estimated market -- market estimates and prices, and the cost of operating the line and the net operating profit that was left, and then that net operating profit expressed as a percentage of the investment in the pipeline.

In other words, it would be what we call on the fair return, fair value regulation.

MR. PATTILLO: Well, Mr. Purdy, if you know the F.P.C. staff method I have been talking about, were the figures submitted to you by Westcoast made up in accordance with that method or not?

MR. PURDY: I don't know, because they did not need to be.

MR. PATTILLO: Now, you say here that there are four differences between the original contract between the B.C. Electric and Westcoast and the contract between Pacific Northwest and the cities of Seattle and Portland, but is that a proper comparison? Wouldn't it be more correct to compare the differences between the contract between B.C. Electric and Westcoast and the contract between Westcoast and Pacific Northwest?

MR. PURDY: We made that comparison also, as our submission shows, but here we have a comparison that is significant for our consumers. These things are an advantage to the consumers in the area that we serve and certainly were of concern to us and, indirectly, then, of concern to the consumers.



MR. PATTILLO: So you think the only significant thing for the consumer in Vancouver is to compare the price of gas and the factors in the contract you have with the contract that a distributor for Seattle and Portland has?

MR. PURDY: Not only. I say this is one comparison that has some considerable significance.

MR. PATTILLO: Now, on page 20 you make the statement that you were going to be able to bring gas here at prices substantially lower than those it was then charging for its manufactured gas. Have you ever heard of natural gas selling at prices higher than manufactured gas?

MR. PURDY: I have made no examination of it at all.

MR. PATTILLO: Well, let me put it this way to you, Mr. Purdy: in your knowledge of the gas business in Canada have you ever heard of manufactured gas being made anywhere in Canada for a price less than natural gas, when that was available?

MR. PURDY: In general, no, I haven't.

MR. PATTILLO: Now, this arrangement that was made in 1956 whereby gas was brought in from the United States: that arrangement was a mutually advantageous one for all three parties to it, was it not, Pacific, Westcoast and your company?

MR. PURDY: That is right.

MR. PATTILLO: Then, when you came to 1957



and you decided that you were going to build this thermal plant, to which you refer starting at page 21 of your brief, why, when you negotiated that contract, did you not fix a firm price for the residue of 48 million?

MR. ROBERTSON: Because Westcoast would not tie themselves up to that additional quantity.

MR. PATTILLO: At the time of those negotiations did it become clear that the price of 22¢ was not a profitable price to be selling the gas to the United States for by Westcoast, as shown to you?

MR. ROBERTSON: That was the conclusion I drew, yes.

MR. PATTILLO: And was that ever stated to you by anybody of Westcoast?

MR. ROBERTSON: I would like to refer to somebody else.

MR. PATTILLO: All right.

MR. ROBERTSON: No, they did not say that.

MR. PATTILLO: Now, on page 22 you make this extraordinary statement here:

"The additional 100 million cubic feet per day
"of gas which Phillips Petroleum Company had
"contracted to sell to Westcoast was only avail-
"able if it was to be exported to Pacific
"Northwest."

Were you told why that was so?

MR. ROBERTSON: I have been told since.



MR. PATTILLO: All right, why?

MR. ROBERTSON: Because Phillips Petroleum wanted to tie its gas up only if it knew that there was an assured market for it.

MR. PATTILLO: Was it because Phillips Petroleum had an ammonia plant which was receiving gas from Pacific Northwest?

MR. ROBERTSON: That was never mentioned. I don't know whether it was true or not.

MR. PATTILLO: You have never heard that?

MR. ROBERTSON: I have heard mention of the plant recently, but I never heard anything about it at the time.

MR. PATTILLO: But you have heard about it since?

MR. ROBERTSON: Yes.

MR. PATTILLO: So this Phillips Petroleum Company was in Canada, doing business in Canada and saying, "We will sell gas to you, Westcoast, providing you only sell it to Pacific Northwest so Pacific Northwest can supply our plant down in the States"?

MR. ROBERTSON: I am afraid I went too far in what I said in my brief here. I have since looked again at the Peace River gas purchasing agreements and, if I were cross-examined by Westcoast, I am afraid I would have to admit that my statement about only being available for export is not entirely true. The fact is that the agreement provides that



either party may cancel if, by the 31st of December, 1957, a certificate has not been issued to Pacific Northwest for its imports of the gas. That cancellation might be made at any time within three months after the 31st of December, 1957.

MR. PATTILLO: Now, Mr. Robertson, again looking at page 22 and just about where I read before, you make this statement:

"It . . . "

-- and that is Westcoast --

" . . . was able to persuade B.C. Electric that its project could not afford to sell gas to B.C. Electric at that price."

That is the 22¢ per mcf price. How did they persuade you?

MR. ROBERTSON: They showed us statements.

MR. PATTILLO: Which showed what?

MR. ROBERTSON: That they could not make any money at that price.

MR. PATTILLO: That they could not bring gas to Huntingdon at that price, is that it?

MR. ROBERTSON: Well, of course, the statement did not talk in that way, but that would be the net effect of it.

MR. PATTILLO: Well, something persuaded you.

MR. ROBERTSON: If they sold gas in additional quantities which required further compression and



so on at 22¢, that the project would not go.

MR. PATTILLO: Well, in this persuasion that they used on you, did they show you what was the lowest price that they could sell it at at Huntingdon for?

MR. ROBERTSON: No, I don't think they showed us that.

MR. PATTILLO: Did you carry on these negotiations for this thermal plant?

MR. ROBERTSON: Partly. I was one of those in the negotiations.

MR. PATTILLO: Throughout?

MR. ROBERTSON: Yes.

MR. PATTILLO: Now, at page 23, you apparently attach considerable importance to this Clause 5 that you have there.

MR. ROBERTSON: The same importance as to the rest of it, as part of the narrative.

MR. PATTILLO: Well, actually, having regard to the location of this pipeline running from Peace River to Huntingdon, having regard to your knowledge of the commitments presently existing with Pacific Northwest, to Inland, to yourselves, and the sources of known supply in the Peace River, that clause does not mean a damn thing, does it?

MR. ROBERTSON: We felt it did.

MR. PATTILLO: You would not consider it



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a pious hope clause?

MR. ROBERTSON: No.

MR. PATTILLO: Why did you take the position with Westcoast that you would strenuously oppose it getting an export permit to furnish another 100 million cubic feet per day to Pacific Northwest if Pacific Northwest exercised the option given to it under the agreement?



MR. ROBERTSON: Because, as we had pointed out in this brief, the price at which Westcoast sells to Pacific Northwest has an effect on the price at which it can sell to us and we thought 22¢ was too low and that Westcoast should not sell anymore at that price. We accept it as a fact of life that Westcoast had to make a 22¢ contract to get the thing going but we thought that was as far as it should go.

MR. PATTILLO: On what information did you draw the conclusion that Westcoast had to accept 22¢ to get the thing going?

MR. ROBERTSON: The statement that that was the best deal they had been able to make.

MR. PATTILLO: Made by whom?

MR. PATTERSON: Between Westcoast and Pacific Northwest.

MR. PATTILLO: Who made the statement that was the best deal they had been able to make?

MR. ROBERTSON: Well, our negotiations in early 1955 were, principally if not entirely, with Mr. D. P. McDonald and Charles Hetherington and we had long discussions with them and the impression I got was that, naturally, they had made the best deal they could.

MR. PATTILLO: You say, page 24:

"In the circumstances existing in late 1954 when
"Canadian gas was regarded by the authorities
"in the United States as an inferior source of



"energy - -".

Where do you find anything that supports that statement that the authorities consider Canadian gas as an inferior source of energy?

MR. ROBERTSON: In the same passage, in the opinion of the Federal Power Commission that I read earlier.

MR. PATTILLO: Do they not say then they consider it would be a mistake without there being a treaty between the countries to have any segment of the population of the United States solely dependent on a foreign country for its gas supply.

MR. ROBERTSON: That is right.

MR. PATTILLO: Is that where you got the statement that Canadian gas was regarded by them as an inferior source of energy?

MR. ROBERTSON: Yes, they regarded anything less than a source of energy guaranteed by treaty or a source of energy from within their own boundaries as one which was not acceptable by their own people.

MR. PATTILLO: As a sole source?

MR. ROBERTSON: Yes.

MR. PATTILLO: Are these words your own:

"an inferior source of energy"?

MR. ROBERTSON: I do not think so; several of us have been working on this brief and which one gets the credit for that, I do not know.

THE CHAIRMAN: They are not quoted from



the F.P.C.?

MR. ROBERTSON: No.

MR. PATTILLO: The words that follow on that:

"Westcoast could do no better than it did when
"it agreed to the price of 22¢".

What is the authority for that statement?

MR. ROBERTSON: Again, information we got from Westcoast during the negotiations in 1955.

MR. PATTILLO: And what does this mean:
"and the authorities regulating the export were in the same position"?

MR. ROBERTSON: If the authorities had refused an export permit at that price, in our view it would not have resulted in the Americans agreeing to pay more but merely resulting in there being no pipeline.

MR. PATTILLO: That is your view?

MR. ROBERTSON: Yes.

MR. PATTILLO: Do you know whether the American authorities inquired into the adequacy of the price of 22¢ at all?

MR. ROBERTSON: No, I do not.

MR. PATTILLO: Then you say:

"The American situation and attitude have now
"changed."

On what do you base that statement?

MR. ROBERTSON: I base it on the fact that



Washington and Oregon are apparently now -- in fact, being supplied primarily if not exclusively with Canadian gas and Pacific Gas and Electric want gas for California and Pacific Northwest wants more gas for its system.

MR. PATTILLO: As the sole source of supply?

MR. ROBERTSON: I do not know enough about the reserves available to this company to say positively it would not be the sole source of supply but I rather imagine, if they get this Canadian source, they will not have a comparable source to which they can turn at a moment's notice in the United States.

MR. PATTILLO: I was wondering where you got this statement:

"The American situation and attitude have now
"changed."

The only thing that has happened is that Pacific Northwest, which is buying gas from El Paso and bringing it up from the south is also buying gas from Westcoast at the border and it has more than one source of supply; is that not right?

MR. ROBERTSON: I have here, I cannot put my finger on it, but I think there have also been statements in the Federal Power Commission or made by members of the Federal Power Commission indicating they did not intend to adhere at all closely to the principles they enunciated in 1954.



MR. PATTILLO: Mr. Fish has been retired.

You make this statement on page 24:

"We can see good reason why, if Pacific Northwest
"wants more than its 300 million cubic feet per
"day from Westcoast it should be required to
"pay such a price for the additional quantity - - "
that is, the hundred million?

MR. ROBERTSON: Yes.

MR. PATTILLO: " - - that the average cost
"of all its gas purchased from Westcoast will
"approximate a reasonable price at the border,
"having regard to the price at which gas for
"Canadian consumption is sold."

Now, what is a reasonable price, in your opinion?

MR. ROBERTSON: I cannot answer that question;
I have no opinion on the subject.

MR. PATTILLO: So you have not worked out
any examples to see how much Pacific Northwest would
have to pay for that additional hundred million cubic
feet?

MR. ROBERTSON: No.

MR. PATTILLO: Mr. Chairman, could we have
a few minutes break? I have finished that phase of
the matter and I am going to the next subject. Perhaps
the Commission would like to ask any questions they
have on that phase of the subject matter before I shift.

THE CHAIRMAN: We will have a break for ten
minutes.



---A short recess.

THE CHAIRMAN: Gentlemen, the Commission will resume its hearing. Mr. Robertson, when you answered Mr. Pattillo about a reasonable return by Westcoast and they talked about it; what rate of return on investment did Westcoast use?

MR. ROBERTSON: They were hoping it would be $7\frac{1}{2}\%$ on a depreciated rate basis.

MR. PATTILLO: As time went on.

MR. ROBERTSON: Yes.

MR. COMMISSIONER HOWLAND: Mr. Robertson, you refer to the F.P.C. decision on Westcoast Incorporated's application.

MR. ROBERTSON: Yes.

MR. COMMISSIONER HOWLAND: My recollection is that the F.P.C. turned that down partly on the grounds their studies of the economics of the proposal of Westcoast were not such as to offer the possibility of successful operation. Am I right or wrong?

MR. ROBERTSON: I think there was some element of that in the opinion. As I remember, their principal ground was the one which I read to Mr. Pattillo earlier this afternoon.

MR. COMMISSIONER HOWLAND: I am not sure that my recollection shows there was any principle, first or secondary, to support that implication



that the proposal of Westcoast Incorporated was not in itself sound and, therefore, they reached the first decision on that.

MR. ROBERTSON: I am afraid I am not in a position to help you, sir. I would have to read it again and see.

THE CHAIRMAN: All right, Mr. Pattillo.

MR. PATTILLO: Thank you, Mr. Chairman. Mr. Robertson, looking at page 25 under your subject head: "Should there be regulation of prices charged by gas pipeline companies", am I correct in thinking that one of the main reasons that you say there is no need for regulation of prices charged by gas pipeline companies is that they are purchasers rather than distributors such as B.C. Electric who are quite capable of taking care of themselves.

MR. ROBERTSON: Yes. Usually a pipeline company, certainly it is the situation here, has only two or three customers each of whom is in a position to be vocal. It is not like the case of a utility who sells to thousands of small people, no one of which can hurt the distributor by refusing to make a contract.

MR. PATTILLO: As long as no public utility pays any attention to the price that a distributor may pay to a pipeline company, which is the case in British Columbia, is it not?

MR. ROBERTSON: I am afraid I do not agree



with you there.

MR. PATTILLO: The public utility pays no regard to the price that you are presently paying to Westcoast for your gas other than to use it as a base to fix the rate which you may charge to the consumer.

MR. ROBERTSON: That is all it has done so far.

MR. PATTILLO: Right; and if you have that situation, do you consider that in the negotiations that took place between Westcoast Transmission and B.C. Electric that there was no body that could consider the price and that the relative positions of the two parties were equally strong; the supplier, Westcoast and the proposed purchaser, B.C. Electric.

MR. ROBERTSON: No, I do not. I think B.C. Electric was, probably, in a stronger position than Westcoast. We had an established manufacturing gas business we did not have to get out of; Westcoast could not get into the business at all unless they made a deal with us.

MR. PATTILLO: Well, if your position, in your opinion, was stronger than Westcoast, why did you agree to enter into a contract for the thermal plant power without having a fixed price for the last 48 million cubic feet per day?

MR. ROBERTSON: You made a jump from the



position in 1955 to the position in 1957. We were talking earlier about the 1955 contract.

MR. PATTILLO: No, I was talking about the regulation of price in any contract. Let us go to the 1957 contract, then. Will you agree with me that in the 1957 contract, Westcoast was in a stronger position than B.C. Electric in the negotiations that took place as to the price for the gas to run the thermal power plant.

MR. ROBERTSON: No.

MR. PATTILLO: If it was not, why did you not negotiate a firm price for the final 48 million cubic feet per day?

MR. ROBERTSON: We were not in the stronger position either.

MR. PATTILLO: You were both in weak positions; is that what you are telling us?

MR. ROBERTSON: Equally weak or equally strong, whichever way you wish to put it.

MR. PURDY: I would like to add this: You must notice we were asking and got a great deal from Westcoast in that middle contract. We were asking them to protect our position in that we didn't want it today and were not willing to start paying today. They undertook to protect that 48 million cubic feet that we did not want until 1965. We were asking Westcoast for a great deal in that and we bought a great deal from them. We needed that protection before



we started the ordering of equipment so you must not disassociate the price from all the rest of the contracts. You must set that price in the total setting.

MR. PATTILLO: Mr. Purdy, if you people were taking the position that you have expressed in the brief of telling Westcoast, "We cannot do anything about the 300 million you are under contract to supply to Pacific Northwest at 22¢ but if Pacific Northwest endeavours to take up its option for the other 100 million you then have to go and get a permit to export and that is where we will move in on you; we will fight that tooth and nail until there is a price which we consider reasonable for that". Now, that was the position you were taking and having regard to the capacity of this line and its possibilities and the fact there might be, from your action, a move to restrict to the unit of a maximum of 300 million, I fail to follow where this provision to provide you with 48 million cubic feet per day sometime in the future was such a great deal. Can you tell me wherein it was?

MR. PURDY: I think it speaks for itself.

MR. PATTILLO: I will put this to you then: you make this statement, "This conclusion does not hold in the natural gas business, that is the regulation of price, where pipeline companies are dealing with distributing companies and each side is able to



take care of itself." Do you think that in the negotiations you had over the several contracts, having regard to the price that Pacific Northwest was paying Westcoast Transmission, B.C. Electric did a very good job in taking care of itself?

MR. PURDY: Yes; I am completely convinced of it.

MR. PATTILLO: Although you agree it is the price you are paying and passing on to your consumers that is making Westcoast Transmission a feasible and economic business.

MR. PURDY: No, I have never come to that conclusion either. Everybody who is buying collectively makes Westcoast a feasible proposition.

MR. PATTILLO: I agree it all adds so many dollars in the till but if everybody is buying at less than cost then it is not a feasible proposition.

MR. PURDY: It certainly would not be.

MR. PATTILLO: If somebody is buying at less than cost then somebody else, in order to make the whole thing feasible, must pay a price not only which will yield a profit on its own but will take up that slack of loss on the other; is that not so?

MR. PURDY: Given, of course, against the background which is well-described in this brief of the sale of the conditions under which the 300 million were sold to the States. This was a sale that was necessary to the financing and construc-



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tion of the Westcoast line and as our brief shows,
we came into our contract, discussed with Westcoast
that the line gave an appearance of potential
feasibility after the sending of the 300 million
across the line.



MR. PATTILLO: Now, Mr. Purdy, from your experience in gas do you agree that pipeline transmission companies on this continent make up the price which they charge to the distributor such as B.C. Electric by adding to the price which they pay to the producer the cost of transmission over the distance that is required based on tariffs?

MR. PURDY: I believe that would be the general process, yes.

MR. PATTILLO: And don't you think that it is essential in the operation of an interprovincial pipeline that there be some independent body examine those tariffs to see whether they are fair and reasonable?

MR. PURDY: Our view is expressed in the brief, and it speaks for itself. We believe the two parties are close enough to reach agreeable prices. I can't add anything of any advantage to what is in the brief.

MR. PATTILLO: Mr. Purdy, I will ask you this question and you may decide that you don't want to answer it, and if you don't, that is your privilege. Is the view that you are expressing here today just now of the fairness of these prices your own personal view or the view of all of the management of your company?

MR. ROBERTSON: Yes, it was the view of the management that the contracts were worth entering



into when they were made, otherwise we would not have entered into them, and we have not regretted it since.

MR. PATTILLO: That is not an answer to the question.

MR. PURDY: I will answer the question. Yes, it was their view.

MR. PATTILLO: Do you consider that there should be no regulating body enquiring into the cost of transmission of gas by a transmission company such as Trans-Canada or Westcoast?

MR. ROBERTSON: No, I don't think that anybody should be debarred from enquiring into those things. I think that might be one of those things on which a National Energy Board should keep itself advised.

MR. PATTILLO: What would be the purpose of it if it wasn't for the purpose of determining whether the price charged was reasonable and fair or whether it was exorbitant?

MR. ROBERTSON: One of the purposes would be in dealing with the minimum price for export.

MR. PATTILLO: You mean that in the case of exporting gas from the country you should determine what the costs of transmission were to see whether or not a reasonable profit was being realized?

MR. ROBERTSON: I think that the National Energy Board should be well advised and up-to-date



on the whole picture of energy costs and energy resources in the country.

MR. PATTILLO: Why shouldn't the Canadian consumer have that same protection?

MR. ROBERTSON: Of being well informed?

MR. PATTILLO: Why should the consumer of B.C. Electric gas have no regulatory body enquiring as to whether or not the price charged to B.C. Electric was a reasonable or proper price?

MR. ROBERTSON: I think the proper approach is not why shouldn't you regulate everything that happens in the country but rather, in this particular instance that is under consideration, is there need for regulation? I think you are approaching it from an entirely wrong point of view, if I may say so. Your assumption that regulation is a natural thing for all sales and purchases I don't agree with.

MR. PATTILLO: If I have given you that impression, I am sorry, because I quite agree that I don't approve of it either. But you do agree that while you have gas going through the mains of the streets of Vancouver, it is a public utility being used by the people of the town, distributed by your company as a public utility.

MR. ROBERTSON: Right.

MR. PATTILLO: In giving a service, and a needed service. Now, I am suggesting to you that, if that is so, shouldn't I or any consumer on your



main be assured that the price that you paid for that has been enquired into by an independent body and it has come to the conclusion that it is a reasonable and fair price?

MR. ROBERTSON: If I were to agree with you I would also have to urge that the public utilities commission should pass upon rates of pay for all our employees, and in the public utilities these rates of pay are a very high component of the cost; they should enquire into the cost of the typewriters we use in our office, they should enquire into the cost of everything. The cost of things is only one of a large number of costs which enter into the price which we charge our consumer.

MR. PATTILLO: It is the gas I am thinking of, not the pipeline. It seems to me that there is a difference between the direct cost of gas and the indirect cost of administration arising out of labour and the depreciation cost of capital equipment that you are using every day.

MR. ROBERTSON: I am not an economist, but labour in my view is no less a direct cost entering into the cost to the consumer than gas itself, or in the transportation industry the gasoline which the buses use.

MR. PATTILLO: What I have difficulty in understanding is this: if you don't want the government of this country to enquire into and, if necessary,



regulate the price charged by the pipeline company, how do you ever bring yourself to agree that it is perfectly proper for a public utilities commission to enquire into the rates that you charge a consumer?

MR. ROBERTSON: For the reasons set out in the brief, that the ordinary consumer, one of many thousands purchasing in small quantities, first of all has to have the gas or electricity or transportation, as the case may be, from the utility in the area in which he lives and he hasn't in the ordinary nature of things to fight the price which he is asked to pay. That is not true when you are dealing with a pipeline which has only one or two or three customers.

MR. PATTILLO: One of your objections is, I think, that you have to regulation of price is that you seem to think that it may affect a long-term contract which you have negotiated, but that doesn't necessarily follow, does it? For example, if you negotiate a contract for your company with Westcoast for a period of twenty years and that contract has been enquired into and the regulatory body considers the price fair and reasonable and approves of it, there is no need then, and it doesn't follow, that that contract would be subsequently changed.

MR. ROBERTSON: It doesn't follow it would be, but if the pattern of regulation followed that which is usual in Canada and in the United States,



then the regulating body would have the right to substitute for the prices in the contracts other prices which it considered fair and reasonable and make those effective in precisely the way that the Federal Power Commission has authorized Pacific Northwest to charge more for Seattle and Portland than in the contracts.

MR. PATTILLO: Isn't that because of the fact that Seattle and Portland underestimated the quantities of gas they would require, and when Pacific Northwest went to enquire about additional quantities they found the price went up?

MR. ROBERTSON: I think you are getting confused here. We are talking about the jurisdiction of Boards in the usual pattern. Those estimates of Seattle and Portland had nothing to do with the pattern that regulation takes in the United States and Canada.

MR. PATTILLO: You will agree with me on this, that you could have regulation which could enquire into your long-term contract and, if it was fair and reasonable, approve it, and so far as the quantity of gas in that contract was concerned, you would get it at the price in that contract.

MR. ROBERTSON: It could be, but there is no guarantee of it, and it would say that the regulatory body would fix the price. I don't know



of any practice, perhaps you will give me an example of it, where a commission said yes, we have looked at this contract, we have looked at its terms, and it will unchangeable during its term. I doubt if a commission would have jurisdiction over that because it would be a denial of the jurisdiction the statute gave it.

MR. PATTILLO: I am sorry, I don't agree with you, but that is only a matter of opinion.

MR. ROBERTSON: That is the only experience I have with regulation.

MR. PATTILLO: It is an entirely different thing, regulation for the supply of gas and regulation for telephone, for example, because the cost going into those rates vary from day to day.

MR. ROBERTSON: No, where you have a system of regulation it is open to the regulating body to make a change in the rate at any time, and it is usual for them to make a change from time to time; and, once again, it is not only the cost to the distributor, there are a host of other things which enter into it.

MR. PATTILLO: You say at the top of page 29: "Low wellhead prices were essential to the launching of Westcoast's original pipeline project." Do you know that of your own knowledge?

MR. ROBERTSON: No. I know that by what Mr. McDonald and Mr. Hetherington told us in 1955.



MR. PATTILLO: Do you consider that the consumers in Vancouver or anywhere else have a right to think that they should be able to get gas and, if necessary, the producer should deliver that gas at what I call distress prices?

MR. ROBERTSON: Do I think they have a right to get it at distress prices?

MR. PATTILLO: Yes.

MR. ROBERTSON: No.

MR. PATTILLO: Now, where you say your company recommends that consideration be given to enabling authorized Canadian distributors on occasion to purchase their own supplies of natural gas in the field and have them wheeled by pipeline companies to the areas of distribution, I am not sure that I quite understand what you mean there. Do you mean that B.C. Electric should go into the gas-producing business in Peace River and, having found the gas, would then sell it to Westcoast at the prevailing prices so that this "favoured nation" clause would not be affected?

MR. ROBERTSON: No, I meant this, that B.C. Electric would buy gas in the Peace River area and would ask Westcoast to carry that gas for them to Vancouver and would pay Westcoast so many cents per mile for so many cubic feet.

MR. PATTILLO: So you would go out and buy it from Westcoast so that you could avoid the



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"favoured nation" clause coming into operation?

MR. ROBERTSON: Yes, and they would provide that if they buy gas at our prices then these should be imported. If they never bought it and never sold it that way and if it would follow that that would not trigger the "favoured nation" clause in Westcoast's contracts.



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MR. PATTILLO: I would imagine that if anything like that ever went through, the officials of Westcoast would have to stay a long way away from the Peace River.

Now, Mr. Robertson, at page 30 you make this statement here:

"In 1954, when Pacific Northwest's application to import Peace River gas was finally approved by the U S. Federal Power Commission, Canada was still regarded as a supplementary source of supply. Now, however, natural gas from the Peace River area is in fact supplying the prime requirements of Washington and Oregon."

Is that a statement of fact you make of your own knowledge?

MR. ROBERTSON: I think there is something wrong with that date, Mr. Pattillo. In 1954 when Pacific Northwest's application to import Peace River gas was finally approved by the U.S. Federal Power Commission -- I think that should be 1955.

MR. PATTILLO: No, that is correct. Well, I think it was early in 1955; I think you are right, in February, 1955.

MR. ROBERTSON: It was November or December, 1955. The contract between Pacific and West-coast was made on the 11th of December, 1954.

MR. PATTILLO: That is right.

MR. ROBERTSON: And it was not until the



following year, if the Commission would not mind changing the date.

THE CHAIRMAN: Well, it seems to me that Mr. Hetherington could clear that up.

Was it 1955?

MR. HETHERINGTON: 1955.

MR. ROBERTSON: Now, I have lost your question, I'm sorry.

MR. PATTILLO: I was really directing myself to the last sentence of that: "Now, however, natural gas from the Peace River area is in fact supplying the primary requirements of Washington and Oregon."

I was asking whether you were making that statement of fact from your own knowledge.

MR. ROBERTSON: No, I am not. I got that from Mr. Davis, who, I believe, looked into it.

MR. PATTILLO: Then you say, in the last sentence of that paragraph: "In our opinion, the export prices at the international boundary should properly reflect these altered circumstances."

What do you say are the altered circumstances?

MR. ROBERTSON: That the Americans now have, apparently, a substantial need for Canadian gas and that they are prepared to allow it to be their primary source of supply.

MR. PATTILLO: You do not think they had



the same need for it in 1955?

MR. ROBERTSON: Well, this is the time when the Federal Power Commission gave its decision on the 18th of June, 1954, up until the present time. I do not know if I could choose a moment in time when the transition took place. I am sure I can't.

MR. PATTILLO: Those are all the questions I have, Mr. Chairman.

THE CHAIRMAN: Mr. Robertson, I would like to go back to the position which you took with Mr. Pattillo and his line of questioning respecting non-regulation of the price at which a distributor purchased gas from a pipeline company. Let us get away, for the moment, from Westcoast, as such. There are other pipeline companies in the country and you said, as I recall it, that this Board of which we have been speaking should familiarize itself and so on, but you left me with a definite impression that that was just a matter of an academic exercise, that they would not exercise any jurisdiction. I cannot see the point of that.

MR. ROBERTSON: It would, as we conceive it here, have a great many functions to perform. One of those is an advisory function for the Dominion and Provincial Governments. Another is the authorizing of construction of interprovincial pipelines;



another is the authorizing of construction of international pipelines. In each of these cases it deals also with physical expansion ---

THE CHAIRMAN: Oh, I realized all that. I am applying the academic exercise only to the point of whether or not it is a fair price to you. They do not exercise any regulatory authority, but you said they should familiarize themselves and so on.

MR. ROBERTSON: If I may finish my answer to you, sir.

THE CHAIRMAN: I am sorry.

MR. ROBERTSON: In order to exercise all those functions, it should be thoroughly well-informed over the whole field of the natural gas business and it cannot say, "We have a particular function to perform here and we will try to inform ourselves only on so much and shut our eyes and ears to everything else."

I think they have got to know pretty well everything that is going on in the industry.

THE CHAIRMAN: Well, are you not, in effect, arguing, "Well, we are all right. We are large and we can deal at arm's length with Westcoast," or "We are just as strong and we can drive our own bargain by various considerations, no need of regulation"? But is that true across the country, in the national interest?

You take your gas off the valve at Sumas,



don't you?

MR. ROBERTSON: Huntingdon.

THE CHAIRMAN: Well, the people up the line, perhaps they would not be quite so strong and able to bargain with the transmission company as you are.

Take your Trans-Canada line: we certainly had evidence placed before us in Regina where we were given to understand that the Saskatchewan Power Corporation were certainly not happy with the rates at which Trans-Canada proposed to sell them gas and, indeed, they stated to us that it was in their interests in Saskatchewan to parallel Trans-Canada's pipeline and that it would save some \$30 million over the course of some 20 years by transporting their own gas instead of buying it from the pipeline, and are there not various methods that can be used in pricing your cost of transmission to the near consumer and far consumer and so on and what may apply or what you would wish that you may feel safe about and protect yourselves may not apply across the country.

Would you be willing to concede that?

MR. ROBERTSON: I could say that, almost inevitably, there would be cases where there are people in less advantageous circumstances than others, certainly. At the same time, that is not necessarily justification for subjecting all the others to a regulation which may be unnecessary in their case.



The principle that I would like to espouse is that governments should not step in and regulate and otherwise interfere with the conduct of business by enterprises unless a need for it is illustrated, and I do not think that this Commission should recommend that there be regulation unless need for it is demonstrated to it.

THE CHAIRMAN: Has not our history been that we do seek to regulate the sale by what one might virtually call a monopoly? There is nobody else from whom you can purchase your supplies of gas for Vancouver, is there, presently in business?

MR. ROBERTSON: Not presently in business. There were other projects ---

THE CHAIRMAN: Yes, but Westcoast is in the picture?

MR. ROBERTSON: That is so.

THE CHAIRMAN: And there is no other place you can buy your gas, and that would be true across Canada from Trans-Canada Pipe Lines?

MR. ROBERTSON: I don't think that is necessarily true, sir. I think you gave, yourself, an example, a few minutes ago. The Saskatchewan Power Corporation are going to parallel Trans-Canada's line instead of buying from them.

If it comes to a second line out of the Peace River area, it does not necessarily have to be built by Westcoast.



THE CHAIRMAN: You mean the Province of British Columbia should build it?

MR. ROBERTSON: No, I would hate to see that. I think it might be built by some other group who wish to engage in a project of that kind, just such a group as Westcoast originally was or as the Trans-Canada people were.

THE CHAIRMAN: Well, the point of my inquiry is that it is a monopoly of a source of supply to you.

MR. ROBERTSON: It is not an absolute monopoly.

THE CHAIRMAN: Well, in what way is it qualified? If you had any right to do so and cancelled your contract with Westcoast tomorrow, from whence would you get your gas?

MR. ROBERTSON: We would not get it from anywhere unless somebody else came in.

THE CHAIRMAN: So, at the moment, you must admit it is a monopoly, must you not? You have no place from which to purchase your natural gas for the City of Vancouver than the Westcoast Transmission line?

MR. ROBERTSON: No, at the moment, that is all we have.

THE CHAIRMAN: Right, and that is all that has been suggested, as I see it, and I put it on the basis of a monopoly which justifies a control or regulation of the price, to place on it a proper tariff



and a proper rate base with a fair and reasonable return, and I just suggest to you, for the sake of argument, that the regulation of such a thing should not await somebody being badly hurt.

MR. ROBERTSON: The principle of regulation in monopolies has been very generally accepted, and the monopolies in question there are, I think, natural monopolies such as the distribution of electricity in Vancouver, making it virtually impossible for two different companies economically both to string wires along the same street to serve people who want to take from Company A or from Company B. There the very nature of the business means there must be a monopoly in the utility. I do not think that is naturally so in the case of the pipeline business.

THE CHAIRMAN: Well, the development of the industry in the country so far is precisely that, is it not?

MR. ROBERTSON: We have an example in the United States in the Pacific Gas and Electric Company, which has been getting its supply from the El Paso Natural Gas Company, and it is now branching out and looking for a supply from a different direction or another supplier, and there it is open to it to get away from whatever monopoly the El Paso Company had.

THE CHAIRMAN: Ah, yes, but wait just a second. It is going to carry its gas south of the



border to the boundary of California by the Pacific Gas Transmission Company, where, at the border of California, the rate it charges to Pacific Gas and Electric is going to be regulated by the F.P.C.

MR. ROBERTSON: I was not speaking of regulation, at the moment. I was only directing myself to the question of whether or not there was the same kind of monopoly as between a pipeline company and distributor as there is between distributor and consumer in a city.

THE CHAIRMAN: Yes. I do not want to pursue it any further, but it does seem to me that you are, in this area, at the moment, purchasing your gas from a transmission company, which, per se and necessarily, has a monopoly of the transmission of that gas into this area.

MR. ROBERTSON: Well, it is the first one in the field.

THE CHAIRMAN: Certainly.

MR. ROBERTSON: There has not been an opportunity for others to come yet.

THE CHAIRMAN: Oh, if it were economic for someone to do it, I am sure there are enterprising people in this part of the country to do it.

MR. ROBERTSON: When it becomes necessary for a second line to be built, we may want somebody else to do it.

THE CHAIRMAN: I can see where we can go on



for some time with this, so let us change the subject and get back to page 29 of your brief, if you would, where you suggest that a distributor, such as, presumably, B.C. Electric, could go into the gas producing areas and produce their own gas and get a transmission company from that area, in this case Westcoast, to bring that gas down for you. Is that right?

MR. ROBERTSON: Yes.

THE CHAIRMAN: Would there be any reasoning, in your mind, why a distributor in a different area than Vancouver or British Columbia would not have the same right to do so?

MR. ROBERTSON: Any other distributor?

THE CHAIRMAN: Yes.

MR. ROBERTSON: No, I imagine it would be equally open to them to apply to the Board.

THE CHAIRMAN: In such a case would you not put Westcoast in the position where it was a common carrier?

MR. ROBERTSON: Subject -- speaking not exactly, yes; speaking exactly, probably no, because a common carrier is one who holds himself out, to all, ready to carry. In the case we have in mind here, the carrier would not be holding himself out at all, but it would be the Board which would tell him that he had to carry.

THE CHAIRMAN: If a Board told him that he had to do it for you, would the Board not have to



tell him to do it for everybody else who applied for it?

MR. ROBERTSON: Certainly we would be in no different position to anybody else.

THE CHAIRMAN: Then, in the end, it really gets down to this, that Westcoast is a common carrier and then, if so declared, its rates surely would be subject to regulation, would they not?

MR. ROBERTSON: They probably would have to be.

THE CHAIRMAN: Yes.

MR. ROBERTSON: Although, of course, there were common carriers long before regulation.

THE CHAIRMAN: You mean common transporters who do not hold themselves out as common carriers?

MR. ROBERTSON: Well, those who did before regulation. Regulation is not an essential of carriage.

THE CHAIRMAN: No, but it would go with it, without doubt, surely, because any other distributor who could physically get his natural gas from Westcoast would have to be given the same privilege?

MR. ROBERTSON: Yes.

THE CHAIRMAN: Then, coming to page 31 for a moment, you deal with the end use of natural gas. As a matter of principle and a matter of policy, I think you really are saying there that you think the end use of the export of natural gas from Canada should



be controlled?

MR. ROBERTSON: Yes.

THE CHAIRMAN: Likewise, electricity?

MR. ROBERTSON: I see no reason for differentiating between them.

THE CHAIRMAN: Well, how can you, as a matter of practical reality, control the end use of an export? How could you control the end use of the lead, zinc, copper, aluminum that goes out of our country; and how could you do it in the case of gas, which goes into a stream of a pipeline on the other side, and how are you going to accuse your purchaser of selling the gas, which is subject to some condition of its export, accuse him of using your exported gas in a manner in breach of the condition when the whole thing becomes commingled with other gas?

MR. ROBERTSON: I have not tried to think of any specific examples. What one would have in mind here, of course, would not be, as much, the little use for the gas -- it is its use for a few large industries competing with corresponding Canadian industries. It might very well be made a condition of the export licence that the importer should not sell the gas to a plant which carried on a particular kind of business, or an alternative might be that, to the extent that the gas was sold to such a plant, the quantity allowed to be exported should be reduced.

THE CHAIRMAN: But then he merely gets gas



from another source and puts it into that plant and your gas goes into residential purposes, for space heating and so forth.

MR. ROBERTSON: If he could get it from somewhere else then, of course, we would have nothing to fight against, because they could do it anyway. But if the establishment of, say, a petrochemical plant, for example, depending on a source of Canadian gas was going to be operated near the border, where it was cheapest, then I think I can see where we could exercise some measure of control.

THE CHAIRMAN: I would agree that if the export were for a specific purpose that was not in the best national interests of our country, then the export permit surely should be refused; but if the export is for general use in the country of import, how can you attach conditions as to its end use, in practical reality? Are you not really asking for just a series of disputes between the two neighbouring countries, because in this case it is a matter of export only to the United States; we are not talking about anything else.

I do not see how you can do it.

MR. ROBERTSON: I can only suggest, off-hand, the two methods I have suggested. I think the second one, particularly, might be practical.

THE CHAIRMAN: You mean manufactured in Canada?



MR. ROBERTSON: No, no. I mean to the extent that you view the exporter or importer, directing any of this gas into a petrochemical plant and, say they used 50 million a day, then the quantity you take out of Canada is to be reduced by that amount.

THE CHAIRMAN: I think you would have to get back to the system where, as you had in the War, tractor gasoline and other gasoline and you put a colouring mixture into it.

MR. ROBERTSON: I am afraid that would not work.

THE CHAIRMAN: I do not see how it would work.

MR. COMMISSIONER HARDY: Mr. Robertson, just carrying on this idea of the end use principle, would you apply that internally in Canada as well as externally?

MR. ROBERTSON: No.

MR. COMMISSIONER HARDY: Why not?

MR. PURDY: My opinion there would be that if we were in a day where natural gas reserves were inadequate to cover the total potential use of natural gas, then it would be sound economy for Canada to look at the problem of end use; but today, with our reserve resources picture as it seems to be, I just do not see any reason for end use consideration in Canada, but my opinion would change as the circumstances changed.



MR. COMMISSIONER HARDY: Well, I direct two examples to you: the first is that you have a province where their reserves are inadequate for the immediate future and would it be wise policy to say to them that they can use their available reserves now to develop power, on the same basis that you are doing here, except that you have much better reserves?

MR. ROBERTSON: Excuse me. Are we not getting into a field where this Board would have no jurisdiction?

MR. COMMISSIONER HARDY: Well, if the gas has to come from outside a province, immediately the problem is that it is being used internally.

MR. PURDY: Well, my answer would be still the same and I could see the same circumstances ruling, namely, that for Canada as a whole and virtually all areas of Canada, there is adequate supply, deliverable supply of gas developed or going to be developed and those areas are reachable, economically, by gas lines. So I think my answer would still be the same. If we were in a scarce economy with respect to natural gas, I certainly think it would be in the Canadian interest to have a hard look at end use; but I do not see that facing us.

MR. COMMISSIONER HARDY: Let us take a different type of example. What would you advocate for control in case one province took this position, "We are unwilling to give an export permit for gas in



the Province because it is going to displace the use of oil and the revenue from the oil to the Province is substantially greater here per 1,000 BTU's", or whatever measure you want to apply, than they get from the gas. Do you say they should be permitted to do that or should a national authority take some action? Is it sound, economically, for them to do so?

MR. PURDY: That is a difficult question. I will let Mr. Robertson answer it.

MR. ROBERTSON: I am afraid I am not going to do any better.

MR. COMMISSIONER HARDY: Well, it does involve the end use of the gas.

MR. ROBERTSON: Yes.

MR. COMMISSIONER HARDY: And if we argue that we are going to put it on an export basis, I scarcely see how we can do otherwise than accept it internally as a principle that would also apply in Provincial rights, if the provinces took that same position.

It is a very real problem, incidentally. It is not just an academic problem.

MR. ROBERTSON: Would you mind giving me the problem again, Dr. Hardy?

MR. COMMISSIONER HARDY: The Provincial authority determines that if they give an export permit from their Province to another Province, it is



going to displace so much oil, which is also being supplied from Province A, and they look at it and find that their revenue per 1,000 BTU's of energy in the oil is substantially greater than the revenue from the sale of the gas per 1,000 BTU's.

Now, if they applied this end use principle, it is in their best interests to say, "We prefer to sell oil rather than gas and we will prevent the export of gas."

MR. ROBERTSON: And they would have to make representations to the National Energy Board?

MR. COMMISSIONER HARDY: Oh, they just do it now; but I am asking if you consider that would be in the best national interests to let them do that, because the way it would have to be stopped would be with a National Energy Board.

MR. PURDY: The Energy Board would be regulated both as to movement of oil and gas?

MR. COMMISSIONER HARDY: It would be regulating the movement of gas. As a matter of fact, it is very doubtful, right now, whether they could be stopped.

MR. PURDY: Not right now; but if we had an Energy Board, the interprovincial movement of oil would be under the Board and also the interprovincial movement of gas, and therefore that Board has it in its hands to solve the problem and look to the public interest in its resolution. In other words, it could



refuse a licence for the interprovincial movement of oil if that were being dictated ---

MR. COMMISSIONER HARDY: You would qualify your end use principle by a national authority that could overrule it on a Provincial basis?

MR. PURDY: Well, we are talking about a Board which would have authority over the interprovincial movement of oil and gas.

MR. COMMISSIONER HARDY: I say that that type of control, either on an international basis or national, would have much more difficulty than the sort of thing you were talking about at the public utility level in dealing with prices, but just to come back to that problem for a minute, would you take the same position, Mr. Robertson, that the public utility commission should not exercise any control over contracts between the producer and distributor which we have at present, if the countries were not dealing at arm's length? What would you do as to countries that are not dealing at arm's length?

Let us take an example: if it should be established that there is an interlocking directorate between Companies A and B and Company B is buying the gas from Company A, they are not dealing at arm's length.

MR. ROBERTSON: I was looking at it and using our Provincial regulation here as an illustration. The P.U.C. would say, "We would not regard as



the true cost of gas that you buy the figure that is quoted in this contract that has been made between two people not dealing at arm's length."

MR. COMMISSIONER HARDY: Do you think your Board has the legal power to do that?

MR. ROBERTSON: In my opinion, it would have that power, even though it lacked the power to say, "We fix the price at so-and-so".

In determining what the earnings of the utility have been, to compare them with what it considers a fair return, it could say, "We will consider, as a cost, not the 15¢ that your company says you are paying, your closely associated company, but 12¢, which we think the price would have been if it had been a transaction between people dealing at arm's length."

I think they could probably get at it that way.

MR. COMMISSIONER HARDY: Well, if they could do it under those circumstances, they could do it under any circumstances. The opinions which have been expressed to us have varied on that. In Alberta, for example, the legal people that we did question were not at all certain that the Board had that power which you just mentioned. If they had it, then I think our argument here is probably superfluous, but because they can take some position between two people that are dealing at arm's length ---



MR. ROBERTSON: I don't see how they can do that.

MR. COMMISSIONER HARDY: Under some circumstances, if a price was not a proper price ---

MR. ROBERTSON: I think there is a difference. Where the companies were dealing at arm's length and arrived at a price, then the fact that that is the price that the parties have arrived at and that is the price that has to be paid -- that is one thing; but where the parties are not at arm's length and you have interlocking directorates and affiliated companies and subsidiary companies and so on, then the price which appears in the contract is not a real price, the real price that is paid, but the real price that is paid is some other price.

MR. COMMISSIONER HARDY: Well, it might or might not be. They have to arrive at a price, and the only question is whether it is a fair price or not.

MR. ROBERTSON: The only question is whether it is a real price.

MR. COMMISSIONER HARDY: Well, they have to arrive at a price, but you say that under the Public Utility Commissions Act that they would have the right to review the contract if they are not dealing at arm's length, but that they would not, if they were dealing at arm's length?

MR. ROBERTSON: I am saying that the figures



that they will show, in the company's revenue and expenditure statement, represent the real cost.

Now, if there is an operation of some kind under which, really, the utility is going to get the money back to the other relationship, then the Commission would take that into account and say that the real price is not 15¢ but it is 12¢.

MR. COMMISSIONER HARDY: Then why can they not do it in the case of Trans-Canada, dealing with a small outfit, from the interlocking directorate point of view? Why couldn't they do it under any circumstances and say, "This is not the real price"?



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MR. ROBERTSON: Well, because it was a real price; that is, only contracts that apply between parties and there is not any arrangement on the side resulting from associated companies, which puts a different complexion on it.

MR. COMMISSIONER HARDY: Thank you very much, we could go on at some length.

MR. COMMISSIONER HOWLAND: Mr. Robertson, I just wanted to refer you to the table on page 2; it seems to be quite impressive, the growth of your demand, and this does not include the growth of Inland to be built.

MR. ROBERTSON: No.

MR. COMMISSIONER HOWLAND: It is just B.C. Electric. On the basis of these figures here, does it seem reasonable that there is any prospect of exporting that extra 100 million we have been talking about?

MR. ROBERTSON: No, that is why I made the statement there did not seem to us to be any immediate prospect of further export.

MR. COMMISSIONER HOWLAND: That is right; on that ground is it feasible to follow through your thought that you should escape the problem of the escalated clause because you are, as I see it here from these figures, if the Canadian gas is reserved for B.C. Electric use and Inland for Canadian use, all the impact of the escalated clause must fall on



the Canadian consumer, and there is very little prospect of this happy issue where the next 100 million cubic feet could pick up the slack; is that correct?

MR. ROBERTSON: I am afraid so, yes.

THE CHAIRMAN: Mr. Pattillo, have you any questions?

MR. PATTILLO: Nothing more, thank you, Mr. Chairman.

THE CHAIRMAN: Thank you very much, Mr. Robertson, Mr. Purdy and colleagues for the time and trouble to which you went in preparing this brief, and also for your patience in answering our questions and the help which you have given us on some of these problems.

MR. ROBERTSON: Thank you very much for hearing us.

THE CHAIRMAN: Mr. Parkinson, I understand that Trans-Mountain Oil Pipeline will present its brief tomorrow, is that correct?

MR. PARKINSON: That is right, Mr. Chairman.

THE CHAIRMAN: Is there anyone from Trans-Mountain here today?

MR. MORRISON: Yes.

THE CHAIRMAN: Unfortunately, we must vacate this room tomorrow at 3.30 p.m. and the suggestion has been made that we commence our hearings in the morning at 9.30. Would that suit Trans-



Mountain?

MR. MORRISON: Yes, it is a little later than we usually go to work.

THE CHAIRMAN: My sole object in putting the question that way was just to give you lots of opportunity to do your last-minute homework before you came.

Under these circumstances, we will adjourn and meet tomorrow morning in this room at 9.30, and we must adjourn in the afternoon at 3.30.

---Whereupon the hearing adjourned at 4.30 p.m. until 9.30 a.m. on Tuesday, April 22, 1958.

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Mr. Gordon

ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

VICTORIA

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ROYAL COMMISSION

ON

ENERGY

Hearings held at Victoria,
commencing Monday, April
21, 1958, at 10.00 a.m.

PRESENT:

Mr. H. Borden, C.M.G., Q.C.	-- Chairman
Mr. J.L. Levesque	-- Member
Mr. G.E. Britnell	-- Member
Dr. R.D. Howland	-- Member
Mr. L.J. Ladner, Q.C.	-- Member
Dr. R.M. Hardy	-- Member

COMMISSION COUNSEL:

Mr. A.S. Pattallo, Q.C.
Mr. Miles H. Patterson.

Mr. J.F. Parkinson	-- Secretary to the Commission.
Major N. Lafrance	-- Assistant Secretary to the Commission



APPEARANCES:

Representing Trans Mountain Oil Pipe Line
Company:

D.M. Morrison	-	President
J.H. McQuarrie	-	Secretary
R.F.B. Taylor	-	Treasurer
C.D. Bailey	-	Chief Engineer
E.C. Hurd	-	Administration Manager

EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
V-22-1	Submission of Trans Mountain Oil Pipe Line Company.	3688



Tuesday,
April 22, 1958.

---On resuming at 9.30 a.m.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearings.

MR. T.G. NORRIS, Q.C.: Mr. Chairman, before the Commission proceeds with the business of the day, I would like to, as counsel for the West-coast Transmission, draw to your attention an editorial appearing in the Vancouver Province of today's date. This editorial reads as follows:

In its submission to the Borden Commission on Canada's energy resources the B.C. government has a public duty to clear up any confusion there may be about natural gas prices.

At present the public understands, on authority of the Borden Commission, that American distributors are paying 22 cents per 1,000 cubic feet for Canadian natural gas, while Canadian distributors must pay 32 cents.

It has further been suggested by the commission that any profit realized by Westcoast Transmission, and its related companies, must come out of the Canadian consumer. The Canadian public, on this evidence, can come to no other conclusion than that it is being



required to pay through the nose for a resource which -- theoretically, at any rate -- is owned by Canadian citizens.

It must pay a high price for its own gas in order that Canadian gas may be sold cheaply to Americans.

The B.C. government has a primary responsibility here. The largest part of the operation concerned is in B.C. The consumers whom the Borden Commission said are being milked are British Columbians.

It is true that price regulation in the case of Westcoast is in the hands of the Federal Board of Transport Commissioners. But in respect to retail prices charged in B.C. by the B.C. Electric and Inland Natural Gas, and in other matters concerned with retail distribution, such as granting of franchises and so on, the power of decision rests with B.C.'s Public Utilities Commission.

Moreover, the B.C. government controls the situation with regard to the natural gas in B.C. gas fields.

As the government of this province its duty is not only to show clearly and factually where local gas consumers stand compared to consumers across the line, but to institute any corrective measures that come within its



jurisdiction.

Now, Mr. Chairman, I have examined the record, and not only do I find that neither the Commission nor any member of the Commission made any statement that British Columbians are being milked but that there is no evidence they are being milked. This editorial is not only libellous but is in contempt of this Commission.

I now respectfully ask you, Mr. Chairman, as Chairman of this Commission to take such steps as you may, within your very wide powers, not merely to afford protection to the witnesses who appear voluntarily before you to assist the Commission, but to protect the very integrity of this Commission.

THE CHAIRMAN: Thank you very much, Mr. Norris. I have not seen the editorial in question; perhaps you would leave it with us?

MR. NORRIS: Yes, I will leave it with you.

THE CHAIRMAN: Thank you very much for drawing it to our attention.

Yes, Mr. Pattillo?

MR. PATTILLO: We propose this morning to hear from Trans Mountain Oil Pipe Line Company. The company has submitted its brief, which we have filed, and which I propose to have marked V-22-1.

---EXHIBIT NO. V-22-1: Submission of Trans Mountain Oil Pipe Line Company.

MR. PATTILLO: I understand that Mr. Morrison,



president of the company, proposes to present the
brief.

THE CHAIRMAN: Thank you, Mr. Pattillo.

Mr. Morrison, are you ready?

MR. MORRISON: Yes.

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Submission of
TRANS MOUNTAIN OIL PIPE LINE COMPANY

APPEARANCES:

D.M. Morrison	- President.
J.H. McQuarrie	- Secretary
R.F.B. Taylor	- Treasurer
C.D. Bailey	- Chief Engineer
E.C. Hurd	- Administration Manager.

MR. MORRISON: Mr. Chairman, I think the Commission is aware that we are coming ahead of Interprovincial whom we had expected to follow. We had our brief pretty well prepared when this change took place or when we were notified, so we have not emphasized certain things that Interprovincial's brief will emphasize. Because of that, I added a foreward to the brief. I would like to commence with this foreword.

Foreword: Because of the frequent critical references to "Pipe Lines" in the Canadian Parliament and Press over the past several years it seems advisable to discuss briefly and in general terms the nature of "pipe lines" in the petroleum industry and to point out the essential distinguishing features of "Oil" pipe lines which are the particular concern of this submission.



Therefore, before commencing to read the brief proper on the Trans Mountain Oil Pipe Line Company the Commission's indulgence is asked to permit a short background note on oil pipe lines in general and the Trans Mountain system in particular. This may be helpful toward a better understanding of this branch of the petroleum industry.

On land, the main arteries of transportation of both petroleum and natural gas are the pipe lines. These are similar in size, extent and general trunk-line constitution, and it would appear that, generally speaking, the public does not differentiate between the two. However, there are characteristic differences which are of major importance when considering government regulation and control as well as such matters as finance and operation.

Oil pipe lines generally operate as common carriers; transporting a commodity that is owned by others, a raw material that is eventually delivered to a refinery for further processing into many products before reaching the consumer. Gas pipe lines on the other hand frequently function as public utilities, owning the material they transport and delivering it as a finished product. An oil pipe line frequently has no guaranteed business and is essentially a high risk venture; a gas pipe line, before construction gets under way generally has long-term contracts for both supply and delivery that will



guarantee the high load factor essential to economic operation, thus making it a relatively "safe" undertaking. In the case of Trans Mountain it was necessary, because of the risk element, to obtain from the major backers of the project deficiency agreements which are described later in the brief.

Trans Mountain was conceived as a wholly Canadian operation which would provide an outlet for Western Canadian crude oil to economic markets in British Columbia and abroad. The objective was clearly stated in the original prospectus, as was also the risk involved. Equity in the line was to be divided among major and independent refiners and producers in Canada and the Canadian public. In this connection I should like to refer to the Harvard Press publication of a disinterested author, Mr. Leslie Cookenboo, Jr., the title of which, by the way, is "Crude Oil Pipe Line and Competition in the Oil Industry", whose work was financed by the Merrill Foundation for the Advancement of Financial Knowledge as one of a series on competition and monopoly in American industry. With your kind permission I should like to refer to this book which Mr. Parkinson has kindly distributed to Commission members. I have written the actual extracts into the brief, but if you like I can read it from the book itself.

THE CHAIRMAN: Oh, no.



MR. MORRISON: In the United States, controversy over the pros and cons of ownership and control of pipe lines by the major integrated companies has existed since the early days of the oil industry. Out of this controversy have come such regulatory measures as the Elkins Act, prohibiting rebates, the Consent Decree regarding permissible dividend payments and various Sherman Act anti-trust cases. Divorcement of pipe lines and disintegration of major companies have been seriously considered by the authorities concerned. Mr. Cookenboo assesses the situation and ends with a 40 page discourse on "Public Policy Toward Crude Oil Lines". I have no intention of asking the Commission members to allow time to read long sections of this work but there are one or two brief passages that bear on Trans Mountain's structure and operation and these I ask permission to read into the record.

Reading from page 39, last paragraph which continues after two pages of tables, at the top of page 42 and thereafter as marked, I quote:

"The two pipe lines originating in the Alberta field in Canada (one going east, the other west) are owned by majors, independent producers and refiners, and outside interests. The relative shares are not readily determinable, since more stock is being sold to the public ..."

The shares are indicated in the brief, as a matter of



fact.

"Summary - To the extent possible the role of the majors in crude pipe-line ownership has been quantified, with an indication that some 85 per cent of crude throughput in the United States was in lines owned by the large companies before the change in trunk-line construction. In the case of the new large-diameter lines, ..."

that is the change he is referring to --

"... the majors have complete control in all areas except for the small shares owned by a Canadian company and by three Gulf Coast independent refiners in the West Texas-Gulf Coast capacity. On the other hand, the two new Canadian systems, while principally owned by the interested major companies, are also owned by independent refiners, independent producers, and the public."

This shows that in Trunk Oil line development Canada has not followed the dominant practice in the United States. That is not a quotation.

Now reading from page 143, the marked paragraph gives the essence of Mr. Cookenboo's conclusion about public policy with reference to ownership of shares in a trunk oil line, and I quote:

"A similar development, which is even closer to the best that any public policy could hope



to achieve, is illustrated by the two Canadian lines mentioned above which were built under special permits from the Canadian Government. In these lines some independent refiners have paid for a share initially; others can use the portions of the line owned by outside interests, thereby foregoing an initial outlay but later paying a rate sufficient to compensate the independent owners of the line for the use of their funds and for the risk taken. In the Trans Mountain line there are even independent producers who have ownership shares. If future crude lines built in the United States were to imitate those built in Canada (most of the ownership is by United States companies or their subsidiaries), then there would be little ground for complaint about major exclusion of the market-oriented independent refiners from crude supplies."

As a last reference please turn to page 168. The author has recommended that, as a matter of public policy, joint venture lines be promoted and in discussing whether or not enforcement of such would be necessary he makes the following statement. I quote:

"Enforcement of the system might well be unnecessary in most cases for two primary



reasons: (1) there is an existing, unregulated movement in the industry toward large joint ventures (indeed, the latest such joint venture, Trans Mountain, is an almost ideal example of how a pipe line should be built; and (2) there is a real economic incentive, lower costs, for combined transportation..."

I should now like to proceed to the Trans Mountain brief proper.

The Company's Business: The Company owns and operates a pipe line system for the transportation of crude oil from a point near Edmonton, Alberta to its tank farm and marine terminal at Burnaby, B.C., together with a spur line from Sumas, B.C., to the international boundary. There it joins the pipe line of its wholly-owned subsidiary, Trans Mountain Oil Pipe Line Corporation, which owns and operates a system in the State of Washington. (See System Map, Exhibit 1.)

The construction and operation of its facilities in Canada are subject to the provisions of the Pipe Lines Act of Canada, which charges the Board of Transport Commissioners for Canada with the administration of the Act. The Company receives crude oil owned by others and transports and delivers it to refineries and to tankers for export to refineries for processing to finished petroleum products.



CORPORATE AND FINANCIAL STRUCTURE

Corporate Structure: The Company was granted authority under a Special Act of the Parliament of Canada to construct and operate inter-provincial and international pipe lines for the transportation of oil. The Special Act incorporating the Company is Chapter 93 of the Statutes of Canada, 1951, assented to March 21, 1951. The head office of the Company is at 400 East Broadway, Vancouver 10, B.C.

The Company has three wholly-owned subsidiaries; Trans Mountain Oil Pipe Line Corporation, incorporated in the State of Delaware on November 10, 1952 for the purpose of constructing and operating pipe lines in the United States; Trans Mountain Housing Limited, incorporated March 21, 1953, under the Companies Act of Canada, for the purpose of constructing and owning dwellings to be leased to the Company for the accommodation of employees of the Company; and Alpac Construction & Surveys Limited, incorporated January 8, 1951 under the Dominion Companies Act. The three subsidiaries have the same Directors and Officers as the parent Company. The names of the Directors and Officers are set out in Exhibit 2.

As required by Section 151 of the Companies Act of Canada, the majority of the Directors of the Company are persons resident in Canada and subjects



of Her Majesty by birth or naturalization.

By its Special Act, the Company is authorized to issue five million shares without nominal or par value. Up to the present time, 1,504,928 shares have been issued. As at March 27, 1958, these shares were held by 7091 shareholders. A table showing the number of Canadian individuals, Canadian companies and non-resident individuals and companies owning shares in the Company and the number of shares held by each group as at March 27, 1958, is shown in Exhibit 3. The number of shares originally issued to oil company shareholders and the number of shares held as at March 27, 1958 are shown in Exhibit 4.

The Company has an Incentive Stock Option plan. The Board of Directors of the Company may grant to full time key employees options to purchase unissued shares of the capital stock of the Company under the terms of the plan. The plan provides that the total number of shares subject or sold pursuant to options shall not exceed 15,000 shares and the price is the closing market quotation on the Toronto Stock Exchange on the date the option is granted. The plan continues in effect for 10 years from October 20, 1955. No shares may be issued until full payment has been made therefor to the Company. A total of 4,900 shares has been purchased under the plan and options carrying an additional 2,000 shares



have been granted but have not been exercised at this time. No such plan was envisaged during the inception of the Company. It was a defensive measure taken in order to retain the services of key employees after the Company had been in operation for some time.

Financial Structure: The financial structure of the Company is shown in Exhibit 5.

Based on an estimated completion cost of approximately \$80,000,000, it was decided that \$65,000,000 should be produced by the sale of bonds and \$15,000,000 by the sale of shares.

450,000 shares were sold to the public at \$10.00 per share to yield to the Company \$9.50 per share after deduction of underwriters' fees. The remainder of the shares issued originally were sold directly at \$10.00 per share. Since the original issue, 4900 shares have been sold at \$38.625 per share under the Incentive Stock Option Plan as described elsewhere in this brief. With respect to the 450,000 shares sold to the public, the underwriters were asked to effect a wide distribution to Canadian purchasers. That this was accomplished is evidenced by the fact that the first shareholders' list included over 5000 names. The shares were not offered for sale in the United States and no registration of the shares of this Company has been effected with the United States Securities and Exchange Commission.



The prospectus of the Company contained a clear warning of the risk, and speculative nature, of the undertaking. Because of this, an important added feature is the fact that all the bonds issued are guaranteed by Deficiency Agreements entered into between the Company and the six major oil company shareholders - Imperial Oil Limited, Shell Oil Company of Canada, Limited, Canadian Gulf Oil Company (succeeded by The British American Oil Company Limited), Standard Oil Company of British Columbia Limited, Union Oil Company of California and Richfield Oil Corporation. These companies are referred to as "Deficiency Agreement Guarantors" in the schedule of shareholdings shown in Exhibit 5. Two further Deficiency Agreements were entered into in 1954 and 1957 by all these companies excluding Union Oil Company of California. That company remains a guarantor on bond issues in 1952 but is not a guarantor of subsequent issues of bonds.

Under the Deficiency Agreements, the guarantors undertake to meet all requirements with respect to service and repayment of the bonds issued. The Agreements set out the mechanics to be followed if a Deficiency (as defined) occurs and the details of contributions to be paid in by the guarantors. They also set out the responsibility of the Company to the guarantors, should Deficiency payments be made by the guarantors.



To ensure that the independent oil companies who were offered 250,000 shares at \$10.00 per share would take a real interest in the venture, each such subscriber was required to enter into an Agreement, which provided that, should a Deficiency occur before December 31, 1956, the first 25% of any such Deficiency would be made good in the proportion that the number of shares purchased by the independent oil company bore to 250,000 shares. No Deficiency occurred up to this termination date of December 31, 1956 (approximately five years after the date of the original sale of shares) and this group of 14 independent oil companies who purchased the 250,000 shares are no longer obligated under their agreements.

AUTHORITIES TO CONSTRUCT AND OPERATE A
PIPE LINE AND TO EXPORT CRUDE PETROLEUM

The Special Act under which the Company was formed specifically authorizes the Company to construct and operate interprovincial and international pipe lines for the transportation of crude oil.

The Company is subject to the jurisdiction of the Board of Transport Commissioners for Canada. At the various stages of construction and operation, applications were made by the Company to the Board for authority to take the next step. These included original construction of the line from Edmonton to Burnaby and the spur line from Sumas, B.C. to the



international boundary. Later, with the industrial growth experienced in the Pacific Northwest and the stimulus of offshore shipments, further applications were made to the Board for authority to construct the first 102 miles of a pipe line parallel to the original line. This was completed in 1957.

The principal orders of the Board issued pursuant to these applications are set out in Exhibit 6.

Pursuant to the Electricity and Fluid Exportation Act, being Chapter 93 of the Revised Statutes of Canada, 1952, application was made to the Department of Trade and Commerce, which, on February 23, 1953, issued a license authorizing the Company to construct a pipe line for the export of crude oil.

The Company's U.S. subsidiary constructed lines to the new Washington refineries. (See Exhibit 1).

THE SYSTEM

Following the discovery of the Leduc and other Alberta oil fields, studies were made which indicated the feasibility of a pipe line outlet to the West for crude oil. As a consequence of these studies Trans Mountain Oil Pipe Line Company was formed.

The present pumping capacity of the system is 250,000 barrels per day (BD).

Oil Fields and Feeder Lines: The major oil fields in the Edmonton area are connected by six feeder pipe lines to Trans Mountain's terminal, which is situated



immediately west of the terminal of Interprovincial
Pipe Line Company. These are:

Britamoil Pipe Line Company Limited	From: Stettler, New Norway, Duhamel, Malmo, Erskine, Clive, Joffre, Battle, Fenn and Big Valley fields.
Edmonton Pipe Line Company Limited	From: Joseph Lake, Armena and Camrose fields.
The Imperial Pipe Line Company Limited	From: Leduc, Woodbend, Golden Spike, Armisie and Acheson fields.
Interprovincial Pipe Line Company	From: Redwater, Bon Accord, Morinville Legal, Fairydell, Excelsior, Namao and Campbell fields.
Texaco Exploration Company	From: Glen Park, Wizard Lake, Bonnie Glen, Westeros, Homeglen and Rimbey fields.
Pembina Pipe Line Company	From: Pembina field.

During 1956, Peace River Oil Pipe Line Co.
Ltd. completed construction of a line from the
Sturgeon Lake field to the Trans Mountain Edson
Station. Three 80,000 barrel stock tanks at Edson
Station provide space to accumulate crude oil received
from the Peace River line.

Connected Refineries: Connected refineries
in British Columbia and Washington have a total
refining capacity of approximately 72,000 BD and
85,000 BD respectively (See Exhibit 7).

Capacities of Pipe Line, Tank Farms and
Terminals: The pipe itself holds 2,450,000 barrels.
The capacities of the Company's tank farm are as
follows:



Edmonton	1,820,000 barrels
Burnaby	1,220,000 barrels
Sumas	450,000 barrels

The Westridge Marine Terminal in Vancouver harbour consists of a dock and shore facilities capable of accommodating one T2 tanker.

THE CHAIRMAN: What is a T2 tanker?

MR. MORRISON: That is the standard tanker that was built during the Second World War. It was thought to be a big tanker at that time, but not now. It is about 16,000 tons dead weight.

It is served by a 24 inch pipe line from the Burnaby Terminal, capable of delivering up to 20,000 barrels per hour by gravity.

A new wharf is under construction which, when completed, will permit loading tankers of 45,000 dead weight tons (d.w.t.) and, after slight additional dredging, tankers up to 65,000 d.w.t.

Pipe Line Route: Two practical routes between Edmonton and Vancouver were found; one through the Crows Nest Pass, Spokane and Seattle and the other an all-Canadian route through the Yellowhead Pass. The all-Canadian route was selected because comparative estimates clearly indicated that it was shorter, required a smaller tonnage of steel, then in short supply, and would be less costly to construct and operate.

All but 55 miles of the route parallels one or other of the two trans-continental railways and



there are 76 stream and river crossings. Easements along the 719 miles of the mainline were obtained from nearly 3,000 landowners, private, municipal and government. About 60 highway and 24 railway crossings presented special legal and right-of-way problems.

The 719 miles of 24 inch mainline were constructed in the two construction seasons of 1952 and 1953. Testing of the line was accomplished by hydrostatic pressure in eighteen sections, all of which tests were witnessed and inspected by an engineer of the Board of Transport Commissioners for Canada. The first crude oil arrived at the Burnaby Terminal on October 17, 1953.

The pipe is buried throughout the route, with a normal cover of 30 inches, making the surface of the right-of-way available for normal farming operations, safeguarding it against damage by landslides and snowslides and insulating the crude oil against low temperatures which would deposit excessive wax in the line. Less than 5% of the route was rocky enough to require blasting and in these areas cover was reduced to 24 inches. During construction the pipe was coated and wrapped and is cathodically protected against corrosion.

Pumping Stations: There are eleven pumping stations, of which three are temporary, located at:

Edmonton
Gainford

Black Pool
Kamloops



Niton	(temporary)	Kingsvale	(temporary)
Edson		Sumas	
Jasper		Laurel	
Albreda	(temporary)		

Four of the pumping stations have electric motor driven main pumping units of 1,250 or 1,500 HP. The main units at the remaining pumping stations are 1,500 or 2,000 HP diesel engines. Four of the engine stations use natural gas and three crude oil for fuel.

MR. COMMISSIONER BRITNELL: Excuse me, what is the significance of temporary stations?

MR. MORRISON: This time last year we were building at a terrific rate to take care of Suez, and we started a second line, a 30-inch line, putting in two of 50-mile sections, and if we had the two complete lines we would have two systems. We had one complete 24-inch line, a section of the 30-inch line, and we put in a temporary system to push the oil through. It is a matter of temporary arrangements, spending money to get money back again, and when we get the other section of the line built these temporary stations come out again.

MR. COMMISSIONER LADNER: You say that four of the engine stations use natural gas and three crude oil for fuel. I am curious to know why an oil company would want to use natural gas.

MR. MORRISON: An oil company is in business to make money, and whichever is cheaper they will go for it. I have seen oil companies use coal.



Operation and Maintenance: The entire route of the pipe line is patrolled regularly by helicopter to protect the right-of-way and to guard against exposure of the pipe due to water erosion and slides. The route is also inspected frequently, over most sections, on foot or by vehicle. The transportation of personnel and heavy work equipment to points on the line where they are needed is difficult due to the lack of roads along much of the route. Along 370 miles of the line there are improved roads. About 165 miles are near fair roads. About 75 miles are in sections where roads are impassable in winter and about 110 miles have practically no roads. 30 to 50 ft. of snow falls annually on these latter two sections. Because of these conditions, all maintenance crews are supplied with radio equipped vehicles and Sno-Cats and Muskeg Crawlers. Skilled personnel, aided by extensive work equipment, at six pipe line maintenance headquarters along the mainline keep careful watch on right-of-way conditions.

Because the route of the pipe line traverses isolated areas in which suitable accommodation could not be found, 140 housing units have been constructed for pumping station and maintenance personnel.

Reliable communications are essential for the operation of the system. These facilities consist of leased telephone lines throughout the route, a teletype circuit and two frequencies of radio telephone.



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2/4

Expansion of Facilities: The initial capacity of the system was 120,000 BD with three stations and 150,000 BD with four stations. In 1953 a 5-1/2 mile spur line was constructed from Sumas to the International boundary. In 1954 and 1955 the Company's wholly-owned subsidiary, Trans Mountain Oil Pipe Line Corporation, constructed a 20 inch line from the international boundary to Burlington, with two 16 inch laterals to the refineries at Ferndale and Anacortes, Washington.

In 1956 construction was started on Gainford and Jasper pumping stations, these being the fifth and sixth stations planned to bring the capacity of the system up to 200,000 BD. In the same year a pumping station was built at Laurel, Washington, bringing the capacity of the Corporation line up to 200,000 BD. At Edmonton, provision was made for the controlled blending of up to four types of crude oil into a common stream.

In 1957 the expansion programme to increase capacity from 200,000 BD to 250,000 BD required construction of two 51-mile sections of 30 inch pipe, one permanent and three temporary pumping stations. The two sections of 30 inch pipe are integrated into the existing system and constitute the first stage of a second pipe line for the exportation of crude oil.

I would like to emphasize that - "for



the exportation of crude oil."

OPERATING COSTS: Operating costs do not vary directly with quantities of crude oil delivered. Consequently, any studies or forecasts of future tariffs predicated only on movements of oil will not be realistic. Investment in facilities and the number of people required to operate and maintain them dictate to a very large extent the costs to be incurred. Variations in traffic from time to time do not add significant amounts nor result in quick or substantial reductions in operating costs.

Physical facilities must be constructed and made available for service in reasonable time so that assured traffic may be handled and not turned away. These require the early use of funds to be expended in their engineering and construction with consequent increase in interest and financing costs to be borne during the months required for their construction. Again, these newly constructed facilities begin to depreciate as soon as they are completed and ready for service whether or not current traffic required their use and, ordinarily, the booked cost of this depreciation is calculated on a service life basis without regard to variations in use during that whole period. These costs aggregate some two-thirds of total costs of operation and must be borne whether the pipe line is being operated at full or zero capacity.



The remaining one-third approximately of total costs fall into three main categories:

Costs of personnel engaged directly in the operation and maintenance of the facilities:-

These costs will include salaries and wages, company benefits and costs of housing, transportation and work equipment wherever applicable. To a very large extent, the number of personnel and, consequently, the costs incurred are dictated by the extent of the facilities which they have to look after and this applies whether or not the facilities are in fact being used in service. Basically then these costs do not vary directly with the volume of traffic.

Power, materials and service purchased from others for the operation and maintenance of the pipe line system:-

Power for the operation of the main pumping units is derived from the use of crude oil, gas and electricity. The cost of crude oil used as fuel does not vary directly with the pumping load. Engines under light load use proportionately more fuel than under full load. Gas and electricity are supplied to the pipe line company under contract with suppliers of these forms of energy and minimum charges of substantial amounts are incurred whether or not the machines are working. There is, therefore, a rather high standby charge incurred until these units are required to be operated continuously at rates



substantially near their designed capacity.

So what may be a common assumption that the cost of power varies directly with traffic is not true. The cost of operation of communications systems is a continuous one and does not vary with traffic. The same is true of the air patrol of the pipe line

The costs of maintenance and repair incurred in the system can be divided between those involving equipment, buildings, tanks and other structures, and those involving line pipe buried in a right-of-way. The costs concerned in the first group can be reasonably estimated and budgeted and to the extent that they involve moving parts could be said to vary with traffic. Costs for the maintenance and repair of line pipe and the right-of-way in which it is buried are completely unpredictable except to the extent of the cost of personnel and equipment referred to earlier. These costs are generated by external forces such as climate and general characteristics of terrain and not by the movement of crude oil in the pipe.

Indirect Costs and Overheads:-

Included in this category are the costs of personnel not concerned directly with the operation and maintenance of pipe line



facilities, legal expenses, insurance, and taxes other than income taxes. With the exception of the item of taxes other than income taxes there is no direct relationship between the costs incurred and traffic.

Over a period of time they would condition themselves to an average level of traffic but they will, obviously, not vary directly with traffic. Taxes other than income taxes have a curious reflection as one would expect them to vary directly with an assessment of installed facilities rather than with traffic. To the extent that taxes are levied on fee properties and on leased properties other than pipe line right-of-way, this is true. The formula for computation of assessments and taxes in British Columbia is such that the effect is to set up some variation with traffic. This effect of variation is realized in the fiscal period subsequent to the variation in traffic. Therefore there is a situation in which substantial amounts are paid in taxes to the Province of British Columbia in 1958, resulting from increased traffic in the autumn of 1956 and the first half of 1957, and it is now predictable that in 1959 lower taxes will be paid because of low traffic in 1958 without regard to what is being moved through the



line at the time the taxes are paid.

Costs for 1957 are shown in Exhibit 5.

TARIFFS

The Company's Tariff is filed, voluntarily, with the Board of Transport Commissioners for Canada. The Joint Tariff between the Company and Trans Mountain Oil Pipe Line Corporation is approved by and filed with the Interstate Commerce Commission in Washington, D.C.

Effective January 1, 1958, initial Tariff rates were reduced by 5¢ per barrel to all destinations, both in British Columbia and in Washington, in an attempt to prevent further loss of business. In spite of this reduction traffic has continued to fall off. The rates now in effect are:-

Edmonton & Edson, Alberta
to Kamloops, British Columbia 38¢/bbl.

Edmonton & Edson, Alberta
to Burnaby, British Columbia 40¢/bbl.

Edmonton & Edson, Alberta
to Ferndale and Anacortes, Wash. 42¢/bbl.

Copies of current Tariffs are attached as Exhibits 8 and 9.

OIL TRANSPORTED

After arrival of the first crude oil in tanks at Burnaby on October 17, 1953, the first deliveries to each of the six connected refineries were made on the following dates:

Ioco Refinery
Imperial Oil Limited

October, 1953



Shellburn Refinery November, 1953
Shell Oil Company of
Canada, Limited

Kamloops Refinery March, 1954
Royalite Oil Company,
Limited

Stanovan Refinery September, 1954
Standard Oil Company of
British Columbia Limited

Ferndale, Washington, October, 1954
Refinery
General Petroleum
Corporation

Anacortes, Washington August, 1955
Refinery
Shell Oil Company

Although Trans Mountain marine loading facilities were available in 1953, the first tanker was not loaded until January 1, 1956.

Deliveries from the commencement of operation until the end of March, 1958, are shown by the tabulation on page 14 of the original brief and the graph which appears as Exhibit 10.

Most of the world's tankers are on long term charter, or equivalent, leaving a relatively small number available for the movement of spot cargoes and for short term charter. This makes spot charter rates extremely sensitive to the law of supply and demand.

From the time the Trans Mountain system was being designed until part way through the first construction season "spot" cargo rates were well above U.S.M.C. rates - in a few cases as high as U.S.M.C. plus 190% (i.e. \$6.50/Bbl. Persian Gulf



to San Francisco). During the second quarter of 1952 these rates dropped off and between that time and the last quarter of 1955 they ranged from about 100% of U.S.M.C. to U.S.M.C. minus 50-60% (i.e. \$1.10 - \$0.88/Bbl. Persian Gulf to San Francisco).

A sharp rise in rates at the end of 1955 tapered off in early 1956 and again rose rapidly to about U.S.M.C. plus 200% during closure of the Suez Canal. When the Canal reopened rates fell off abruptly and since that time have been in the range of U.S.M.C. minus 40% to minus 70%. A graph of these fluctuations appears as Exhibit 11.

In considering California as a potential market for Canadian crude oil in competition with Middle East or other crudes it is apparent that the tanker costs form a large part of the total laid down cost of Middle East crude, but a relatively minor part of the laid down cost of Canadian crude. High tanker charter rates, therefore, favour Canadian oil in California. However, because of the preponderance of long term charters, the generally integrated nature of the oil industry and the differences in production regulations in different countries high spot tanker rates do not necessarily guarantee that Canadian oil will be used in California.

The first tanker of Canadian oil to move



from the West Coast was loaded at Westridge on January 1, 1956 for a California destination. Tanker business increased to a total of over 6,000,000 barrels for the year, one cargo to France, two to Japan and the balance to California.

In 1957 up to the time tanker schedules were rearranged following the reopening of the Canal, movement by tanker from Westridge kept on increasing, reaching a peak of nearly 60,000 barrels per day in May. Some movement continued, but in much smaller volume, through September, 1957, since which time Trans Mountain has had no tanker business. Total tanker movement from Westridge in 1957 was a little over 7,000,000 barrels.

During the first five months of 1957 the system pumped to capacity, part of this time averaging over 200,000 BD. The full requirements of British Columbia refineries were supplied but more oil would have been offered for export had Trans Mountain had additional capacity. The 250,000 BD capacity then under construction was not available until August, 1957, by which time the demand had dropped.



Capacity Requirements: The initial capacity of the system was 150,000 BD, which could be increased to 200,000 BD by previous design arrangements and the construction of new stations at Jasper, Gainford and Laurel. During 1956 the pumping programmes imposed upon the system exceeded 150,000 BD at the same time as these stations were being constructed to increase the capacity to 200,000 BD.

Close consideration was then given to the course of future expansion. There were three possibilities:

Make no increase in capacity.

Increase capacity by constructing additional stations on the existing line with ultimate capacity of 300,000 BD.

Commence the construction of a second pipe line for export with ultimate system capacity of 600,000 BD.

No increase. The system was operating to capacity and profitably. If the decision was made to increase, there was a risk that the additional capacity might not be used continuously and the profitability of the venture would suffer accordingly. A capacity of 200,000 BD would be sufficient in itself to transport all the crude oil estimated to be required by British Columbia refineries at least until 1975. (See Exhibit 10)



Increase capacity by construction of additional stations:

The growing demand in the North Pacific States and California for Western Canadian crude oil suggested that this demand might in time impose a load on the system equal to or greater than the requirements of British Columbia. The capacity of the 200,000 BD line could be increased to 300,000 BD by adding seven more stations at a cost of approximately \$20 million. The disadvantages of this proposal were an increase in pumping costs until the additional capacity was utilized and deep concern as to the path of expansion above 300,000 BD once the additional stations had been added (See Exhibit 10).

Construction of a second pipe line: The third possibility was construction of a continuous new pipe line from Edmonton, paralleling the existing line and designed entirely for the export of crude oil to the Pacific Northwest, California and the world.

Serious elements of danger existed in this proposal because of the great cost of the complete project, estimated at \$200 million, and the serious effect on operating costs before the facilities were



economically utilized. However, construction could be carried out in stages over a number of years as additional capacity was required.

After consideration of all factors, it was decided to expand the system by means of a continuous second pipe line in stages as required. Before commencing construction, the Company retained Stanford Research Institute to make a broad survey of "The Supply and Market for Crude Oil Transported by Trans Mountain Oil Pipe Line". The survey covered the 20 year period to 1976 with indications that, at that date, the British Columbia market would require more than 120,000 BD, the Washington market about 350,000 BD and the total market area more than 600,000 BD including tanker shipments to California. (The Stanford Report was revised in 1957 with some changes in total quantities but showing the same future trend.). The survey confirmed the Company's views and the first stage consisting of 102 miles of the second pipe line was laid in 1957 and approximately \$35 million was spent during that construction season.

The decision to expand by means of a continuous second pipe line meant that Trans Mountain had commenced a programme which, when completed, would make possible the delivery of all the western Canadian crude oil which the Stanford study of 1956 indicated would be required by the markets in British



Columbia, the United States Pacific Northwest, and by tanker out of Vancouver to California ports through the 20 year period to 1976. The Trans Mountain system would also be in a position to serve adequately the newer production areas of Northeast British Columbia and Northwest Alberta.

Benefits to Canada: Benefits to Canada of the Trans Mountain system are as follows:

Provides an economic Western outlet to markets for Canadian crude oil and gives incentive to exploration for new oil fields and fuller development of existing fields, thus attracting large investment capital.

The system is a strategic defence facility, guarantees self-sufficiency in petroleum products and constitutes an additional energy supply line to the Pacific coast.

The Company's system is capable of delivering all of the crude oil estimated to be required by British Columbia refineries up to 1975. Previously these refineries had to rely on imported crude oil.

Refining capacity in British Columbia increased from 26,000 BD in 1953 to 72,000 BD in 1957, with an additional 20,000 BD refinery now under construction.

New refineries in Washington connected to the Trans Mountain system have a capacity of



85,000 BD and one under construction will have an initial capacity of 40,000 BD.

71,900,000 barrels of Canadian crude oil have been exported, with a total value of \$218 million, reversing the previous trend in U.S./Canadian trade.

All employees in Canada are Canadian citizens or British subjects, who initially received much training. These special skills now become part of Canada's manpower strength and capacity.

The establishment of secondary industries, which, experience in other parts of the world has shown, follow the development of petroleum refining.

Taxes paid to Canada and the Provinces of Alberta and British Columbia, including income tax, Federal and Provincial sales taxes, import duties and property taxes in the Provinces.

Recommendations: Export Policies: The export of Western Canadian crude oil to economic markets should be increased by every means at the command of those concerned, producers, carriers, refiners and Governments. Western Canadian requirements should of course be fulfilled first at all times.

In this connection it is to be noted that Trans Mountain's existing 24 inch line is adequate to deliver all the crude oil which present estimates indicate will be required by British Columbia refineries



through 1976, and that stepwise development of the second pipe line (of which 102 miles were completed in 1957) could assure delivery to the Pacific Coast of all Western Canadian crude oil which the 1956 Stanford Research Institute estimate indicated would be required to supply the United States Pacific Northwest and California markets through 1976.

Regulation and Control of Oil Pipe Line Companies: The Board of Transport Commissioners for Canada has authority to fix "tolls or tariffs" but this authority need not be exercised as long as pipe line companies continue to charge reasonable rates, with due regard to the risks involved.

Ownership of shares in oil pipe line companies should be unrestricted, as at present. The summary of the share register of this Company included in this brief shows that restriction to Canadian ownership is unnecessary. Without the active interest and participation, financial and otherwise, of integrated oil companies, as well as those engaged solely in producing and marketing crude oil and its products, the financing, construction and successful operation of an oil pipe line would be extremely difficult. It is doubtful that public or private financing on as favourable terms could be found to support a venture of this nature without such participation.

The present jurisdiction over oil pipe lines



is exercised by the Board of Transport Commissioners for Canada, and in our opinion no more regulation is required. The Board was created and initially named the Board of Railway Commissioners for Canada by the Railway Act of 1903 and was given its present name by the Transport Act of 1938. The Board is a Court of Record and since 1903 has dealt with the problems of railways and, latterly, pipe lines. As have other courts, it has built up through the years a body of precedents and its decisions are recorded in the seventy-odd volumes of the Canadian Railway and Transport Cases. In this Company's experience to date the Board has amply demonstrated its ability to administer the various statutes which apply to the Company's operation. A multiplicity of Boards should be avoided and we believe that insofar as oil pipe lines are concerned a National Energy Board is unnecessary.

THE CHAIRMAN: Thank you very much, Mr. Morrison. I am sure you would appreciate a ten-minute break and I would suggest we have it now. We will have a ten-minute break.

---A short recess.

THE CHAIRMAN: Gentlemen, we will now resume the hearing.

Mr. Pattillo, Dr. Britnell would like to ask a question.



MR. COMMISSIONER BRITNELL: Mr. Chairman, just one question with respect to the fourth last paragraph on page 18:

With respect to the 72,000,000 barrels of Canadian crude oil, precisely what period is covered by that? You say 71,900,000 barrels of Canadian crude oil have been exported with a total value of -- and so on; for what period is that?

MR. MORRISON: The man most familiar with those figures is Mr. Hurd and he will answer.

MR. HURD: That is since the beginning of our operation in the Fall of 1953. Actually, there was not any delivery for export during 1953, but this is the total since we began operations.

MR. COMMISSIONER BRITNELL: So, from the beginning of 1954 to precisely when, or approximately when?

MR. HURD: To the end of ---

MR. COMMISSIONER BRITNELL: 1957?

MR. HURD: 1957, I believe; I think that can be taken as 1957. I do not actually have the build-up of it here, but I think that is it.

MR. COMMISSIONER BRITNELL: That would be almost exactly three calendar years.

MR. MORRISON: We are in the habit of talking about barrels per day.

MR. COMMISSIONER BRITNELL: That would be approximately four calendar years, rather. That is



near enough, Mr. Chairman.

MR. HURD: Dr. Britnell, I can check that and give it to you precisely in a few minutes if that will do.

THE CHAIRMAN: All right, Mr. Pattillo?

MR. PATTILLO: Mr. Morrison, I will just direct these questions to you and you can direct them to whoever you wish to answer them.

Would you please look at Exhibit 7: as I understand it from Exhibit 7, the connected refineries to the system at present in Canada have a daily capacity of 72,000 barrels, and in the United States a daily capacity of 90,000 barrels; is that correct?

MR. MORRISON: Yes, sir.

MR. PATTILLO: What is the highest per day that you have delivered to these connected American refineries at any time since the company has gone into operation?

MR. MORRISON: If I recall correctly, we have delivered up to the capacity for a short time; that would be 58,000 to 59,000 barrels a day to Anacortes and between 32 and 33,000 barrels per day to Ferndale. That is in barrels per day.

MR. HURD: If you would refer to page 14 you will see under the third quarter of 1957 the average daily barrels for the third quarter was 84,454. The peak day would be somewhat higher than that but not greatly.



MR. PATTILLO: So, at that time in the third quarter of 1957, these two refineries were taking all of their supplies through Trans Mountain?

MR. HURD: That is correct.

MR. PATTILLO: What is the situation today? Are they taking all of their supplies today?

MR. MORRISON: That is not really a thing that we can tell you about with any degree of accuracy because they are oil companies that can get deliveries from any source at all. We do not believe there is much coming in from abroad. Probably stocks were built up just after the Suez period, but those are both companies that have produced in California and, I understand, some of their Californian commitments are being taken care of by movement of oil from the south up to the northern States. Whether that is true with Ferndale, I could not say.

MR. PATTILLO: That is not just exactly what I was hoping to get, Mr. Morrison. For instance, does Ferndale refinery -- where is it located -- it is in the State of Washington?

MR. MORRISON: Yes; there is a branch of Ferndale at Laurel. It is 15 miles below and the lateral is about 15 miles along; it is down 15 miles and over to the Coast.

MR. PATTILLO: Under the present United States quota system, what is the daily allowable?

MR. MORRISON: It is in this sheaf of papers.



MR. HURD: According to President Eisenhower's order on the voluntary restriction of imports the allocation shows quotas for the three companies but our operating refineries in the State of Washington, with two of which we are connected, General Petroleum, 25,500 barrels; Shell, 32,500 barrels. U.S. Oil and Refining Company, Tacoma, which was not connected to us but which, for the time, was a consignee, 4,000 barrels per day, making a total of 62,000.

MR. PATTILLO: Is Ferndale having you ship to it today up to the full amount of its allowable?

MR. HURD: No, it is not.

MR. PATTILLO: Has it at any time since the quota system was imposed by the President been shipping up to the amount of its allowable?

MR. HURD: That is since the first of this month?

MR. PATTILLO: Yes.

MR. HURD: No.

MR. MORRISON: Not from us.



MR. PATTILLO: Now, there was a quota put in prior to that, wasn't there, prior to the first of this month?

MR. HURD: Not as far as the westcoast is concerned.

MR. PATTILLO: Well, at any time during the year 1958 has Ferndale been shipping through your lines an amount in excess of its allowable, per day allowable?

MR. HURD: Yes, the refinery has. General Petroleum as a shipper has not. It was almost the amount of its quota, if you could call it that. The reason for that statement is that the refinery at Ferndale, that is the General Petroleum Refinery has also been running crude oil on account of another oil company which was also taking oil through our system. They have a quota. So that the total being run during the early part of this year was somewhat in excess of the quota stated for General Petroleum, but General Petroleum has not.

MR. PATTILLO: And the amount being run would not be in excess of the combined quotas of General Petroleum and the other company for which it was also run.

MR. HURD: No.

MR. PATTILLO: When we come to the Shell Oil Company, you told us their allowable is in the vicinity of 32,500 per day. At any time during the

1. The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that proper record-keeping is essential for the transparency and accountability of the organization. This section also outlines the various methods used to collect and analyze data, ensuring that the information is reliable and up-to-date.

2. The second part of the document focuses on the implementation of the proposed changes. It details the steps involved in the process, from the initial planning phase to the final execution. This section highlights the challenges faced during the implementation and the strategies used to overcome them. It also provides a timeline for the completion of the project, ensuring that all stakeholders are aware of the progress.

3. The third part of the document discusses the results of the implementation. It presents the data collected and the analysis performed, showing the impact of the changes on the organization's performance. This section includes a comparison of the results with the initial goals, demonstrating the effectiveness of the proposed changes. It also identifies areas for further improvement and provides recommendations for future actions.

4. The fourth part of the document concludes the report and summarizes the key findings. It reiterates the importance of maintaining accurate records and the successful implementation of the proposed changes. This section also expresses gratitude to the individuals and organizations that supported the project throughout its duration. Finally, it provides contact information for further inquiries and a closing statement.



year 1958 has Shell been shipping over your lines to its refinery in excess of that figure?

MR. MORRISON: No.

MR. PATTILLO: And what is it presently shipping?

MR. MORRISON: Through our system this month, roughly 10,000 barrels per day.

MR. PATTILLO: Now, still looking at Exhibit 7, you have listed under the State of Washington these two other refineries, Union Oil Company of California and the U.S. Oil and Refining Company. Have either one of those companies been buying oil shipped over Trans Mountain Oil lines either directly or indirectly? First, have they at any time since you have been in operation been shipping direct?

MR. MORRISON: Yes, some oil went direct to the U.S. Oil and Refining Company at Tacoma by barge. It was moved by General Petroleum, but it was moved to the refinery at Tacoma. But Union Oil Company, no.

MR. PATTILLO: The Union Oil Company being one of the original shareholders.

MR. MORRISON: Yes. This isn't a regular refinery at all. That U.S. Oil and Refining Company did have an agreement with General Petroleum to supply them.

MR. PATTILLO: Then I want to come to the



large California market. You have listed the refineries in the San Francisco area as having an aggregate of 375,500 barrels per day; is that correct?

MR. MORRISON: These are taken from publications; they are as correct as they can be.

MR. PATTILLO: Have any of those refineries ever purchased oil shipped over the Trans Mountain?

MR. HURD: Yes.

MR. PATTILLO: When did they do that?

MR. MORRISON: During the Suez period.

MR. HURD: Some in each quarter of 1956 and during the first three-quarters of 1957.

MR. PATTILLO: That is Shell, Standard Oil of California, Tide Water and Union Oil Company of California.

MR. HURD: No, I don't think all of them, but some of them had during this time.

MR. PATTILLO: Which ones?

MR. MORRISON: Standard and Tide certainly did.

MR. PATTILLO: Standard has always been a shareholder in Trans Mountain.

MR. McQUARRIE: Through its Canadian subsidiary.

MR. PATTILLO: Has Tide Water Oil Company ever been a shareholder?

MR. MORRISON: No.

MR. PATTILLO: Who is the Tide Water



Company? What associate companies has it?

MR. MORRISON: It is one of the oldest companies in the oil business, from the year 1, almost.

MR. PATTILLO: Can you give us the names of any of these associate companies which you know of that are operating in Canada?

MR. MORRISON: I don't think there are any. That is out of our territory pretty well.

MR. PATTILLO: So far as you know, you don't know of any?

MR. MORRISON: No.

MR. PATTILLO: And Union Oil Company of California, it was, as you said, an original shareholder?

MR. MORRISON: Yes.

MR. PATTILLO: Now, was consideration ever given by your American subsidiary to extending lines to any of these refineries in the California area?

MR. MORRISON: No.

MR. PATTILLO: There has never been any calculation as to how much it would cost to make such an extension?

MR. MORRISON: Not certainly in my time with the company. Mr. Bailey was there in the earlier stages?

MR. BAILEY: Yes, there was brief



consideration given to that question, but I think it was obviously a future matter.

MR. MORRISON: I would say on the face of it it wouldn't even be considered at this time.

MR. PATTILLO: So that the whole delivery so far as they were concerned up to the present time at least has been contemplated by way of tanker from Burnaby.

MR. MORRISON: Yes.

MR. PATTILLO: And at the present time none of this American market is available to you; is that correct?

MR. MORRISON: That is correct.

MR. PATTILLO: Now, will you explain this, Mr. Morrison, to the Commission? You have as at the first of the year reduced your tariff by 5¢ per barrel, and if one wants to find out how much the laid down cost is today in the United States at Washington one adds the tariff to the price that is paid for the oil at the wellhead; is that correct?

MR. MORRISON: Plus some other factors, yes.

MR. PATTILLO: What would be the other factors? --- gathering costs?

MR. MORRISON: It depends. We get it at a tank farm in Edmonton, so that the gathering charge would be ahead of that, and if that is the case to start with, then you would add the tariff, and then there is the duty and then there is the Canadian



dollar and so forth.

MR. PATTILLO: What is the duty?

MR. MORRISON: $10\frac{1}{2}\phi$ a barrel.

MR. PATTILLO: How is that comparing to-day with the price delivered at Tacoma of Venezuelan oil?

MR. MORRISON: We had quite a discourse on this U.S.M.C. plus or minus. The variation as here in the brief has been from an extreme low of something like 88ϕ to something over \$6 a barrel.

MR. PATTILLO: That is from the Persian Gulf?

MR. MORRISON: Yes.

MR. PATTILLO: I was thinking from Venezuela.

MR. MORRISON: U.S.M.C. standard from Venezuela is how much? In any event, that is a little bit beyond the scope of our knowledge too. We can take posted prices and make the same calculation that you or anyone else can make and arrive at a figure. If you are considering an integrated oil company, the overall economics may be something entirely different, and that is something that we would not know. If you take the posted prices and add these different costs, I think with the Canadian dollar at par, U.S.M.C. minus 35, or something like that, would give about a stand-off at Puget Sound and slightly higher than that, maybe 30.



These are higher figures at San Francisco and maybe Los Angeles.

MR. PATTILLO: What I am getting at is this: it is common knowledge that when we return to Calgary we are going to have a lot of representations made for and against building a pipeline to Montreal. Now, up to now we have heard from various people that one of the natural markets for Canadian crude is this western U.S. area, the area that Trans Mountain is in a position to serve. When you have a potential market as you show here of over 1,244,000 barrels per day that might possibly be served by Canadian crude - -

MR. MORRISON: You are forgetting the California production. Most of that 900,000 or so would be California production.

MR. PATTILLO: Which would leave about some figure of 300,000 barrels per day, as a potential.

MR. MORRISON: Yes, a potential of which we would hope to get a share.

MR. PATTILLO: What is to be done to get the share? You people in your wisdom saw fit to reduce your tariff by 5¢. I presume that was because of competition.

MR. MORRISON: That was as a last resort to try and hold some of the business we had. We didn't hope to get much more. The situation was



changing so rapidly.

MR. PATTILLO: You are talking about the business with Ferndale and so on.

MR. MORRISON: Yes, and possibly the odd shipment to San Francisco Bay and Los Angeles.

MR. PATTILLO: Who told you it was necessary to make this reduction of 5¢?

MR. MORRISON: Nobody told me. You just have to take the best guess you can make. There is no yardstick that is precise that I know of. The oil companies will have a better yardstick because they know more about it. We do not own the oil, we simply have it delivered to us at one point and we deliver out the other end of the pipe.

MR. PATTILLO: Yes, but the people who are in control at that end are the people in these oil companies.

MR. MORRISON: Yes, but it is all company business. We are not on their Boards.

MR. PATTILLO: But what I am trying to get at is, what are the factors which are taken into consideration by your Board, with their background knowledge and everything, in making this reduction in tariff of 5¢ and what factors did you as the president of the company look at in agreeing to make that reduction?

MR. MORRISON: Well, it is a world-wide situation. When Suez Canal reopened there were tankers



floating around looking for business, the spot tankers. We cannot say much about the regular business of the major oil companies where the oil is carried in tankers that are chartered over long periods of time, and they have a steady rate, they know just what they are paying for those charters. But the margin of business carried by these marginal tankers that do not have long time charters -- they grab whatever business they can, the rates go up and down, they swing. Now, at a certain rate we could hope to get some of that business and we are still in that region at that time. Now, it was possible that these rates might go so low that oil could come into Puget Sound from Venezuela and the Middle East, and we have not even mentioned Borneo and Sumatra where there is large production; and when they went on to the East Coast first, I cannot say definitely, but I suppose oil swung around the West Coast and built up stocks there. Now, that was crowding up on the Puget Sound area. We did what we could to try and retain that business. It wasn't only 5¢; in the meantime the dollar had dropped and dropped from, say, a dollar six to about three, something like that. So that was in our favour, and we did hold a certain amount of all that business. Now, that is about as precise as I can be.

MR. PATTILLO: Can you help us, Mr. Taylor?
Here we have the Shell Oil Company with a refinery of



55,000 barrels per day, we have them also owning a refinery in California where they have another 55,000 barrels per day, and we have Standard Oil Company in California with a refinery there of 167,000 barrels per day. Now, those two companies have operations in Alberta, they have a share interest in this pipeline; certainly it is common knowledge so far as Shell is concerned that it has a very large tanker fleet which it is probably operating for its own purposes where it wouldn't be interested in spot tankage, would it?

MR. MORRISON: In certain instances, yes.

MR. PATTILLO: They would also use spot tankers?

MR. MORRISON: Yes -- not regularly. This is a very small percentage of the total business, approximately about 5%, 7%, maybe.

MR. PATTILLO: The spot tankage?

MR. MORRISON: Yes. It is a very small part of the business.

MR. PATTILLO: Then it doesn't really have the significant effect perhaps where we were thinking these tankage rates might have.

MR. MORRISON: Well, it was sufficient to fill up the storage on the Pacific Coast and at the same time the requirements dropped and refineries were curtailing their loss. The whole situation tended to reduce the requirements from



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Canada. The stocks are still something like 47 million barrels on the Pacific Coast, I believe; these are figures just from memory. They were much higher than that from the United States several months ago. But the cold weather in the east came along just at the right time and reduced the stocks in the east, and theirs are in fairly good shape now; but the very warm weather in the West Coast reduced the requirements for fuel oil and so on and their stocks have remained high. That is a great factor in this whole business, the movement of this international oil.



F. MR. PATTILLO: Well, now, I appreciate that, but I want to get at this if I can:

You told us what your tariffs are; you have told us that you will have so many fixed costs; that, therefore, your expenses, whether your lines are running full out or whether they are only running partially full still go on and, as I understood what you were saying, it is, "We have got to have a tariff which is going to cover us when we are running slack as well as make money for us when we are running full out."

Now, is that what you were suggesting in your brief?

MR. MORRISON: Yes. If we are getting at whether or not it was a wise move, we would like to have the nickle back again.

MR. PATTILLO: What I want to get at is this: when your line was operating full out in the third quarter of 1957 and prior to that, what was your cost per barrel for transmission?

MR. MORRISON: Well, I don't like to give it to you just from memory. We can take it from that Exhibit 5; I think you can see something of it there. We have various ways of getting these costs and sometimes it is the level of the throughput that breaks even and sometimes it is the number of barrels---

MR. PATTILLO: Well, you can give me the cost and compare it in any way you want; but what I



am really trying to get at is if you are running full out, what it would be and what it runs up to today.

MR. MORRISON: A lot of these figures we were never really able to establish because we ran up to 200,000 barrels a day when we were expanding, from that to 250,000, and just as we got 250,000 the throughput fell off to more like 150,000, and we never had a barrel at the full capacity of the expanded line.

MR. PATTILLO: I appreciate that. I would like to hear from Mr. Hurd, if he can enlighten us.

MR. HURD: May I say, to begin with, that in the brief table which Mr. Morrison read, he meant to say that costs do not vary tremendously with throughput, but the costs per barrel do.

MR. PATTILLO: Oh, I agree.

MR. HURD: Now, if that is clear, on our present throughput I would say that our costs of pumping were about 40¢ or thereabouts; but if we had our new facilities in and were pumping at 200,000 barrels, which we did without the facilities, they might be half of that, or 21¢.

MR. PATTILLO: So if you could get your line up to capacity, when you are talking about that 21¢, does that include the margin of profit for transmission?

MR. HURD: No, sir.

MR. PATTILLO: That is pure cost?



MR. HURD: All cost.

MR. PATTILLO: So if you put on that cost a margin for profit, on top of that, you could figure out what would be the maximum possible reduction that you could make in tariffs to put Canadian oil from Alberta into the market in the States?

MR. HURD: Well, you could make guidance figures but you would have to put a lot of judgment on the result of such a calculation.

MR. PATTILLO: Right. Now, what I wanted to get at, in order to test the thing from what are the potentials, what are the present prices for Venezuela oil and Eastern oil, that they could be laid down for in this potential market shown in Exhibit 7?

Let us take in Washington. Is there any Venezuelan or Mid-East oil being laid down in the State of Washington?

MR. MORRISON: We haven't any real knowledge of that. So far as we know, there is not any foreign oil other than Canadian going to the Shell refinery. I do not know whether G.P. -- they probably have had some Venezuelan oil. We have no record of shipments coming in.

MR. PATTILLO: Well, who would have that information? When they cut down the amount they are going to ship, don't you go to them and ask them what gives, why are they cutting back?



MR. MORRISON: We don't get the answers and it is a little bit awkward to ask too much of other people's business, perhaps.

MR. PATTILLO: Who would have the answer to that question?

MR. MORRISON: The A.P.I. publish records and we search them as well as we can. In Canada we have our statistics, of course, their counterpart in the States. I think the A.P.I. is the only record we have at the office; that is the American Petroleum Institute.

MR. PATTILLO: Well, you think there has been some Venezuelan oil purchased by General Petroleum in recent months. Now, have you any figure that can tell us what that price, laid down, was?

MR. MORRISON: I haven't even knowledge that they have had that oil. I can show you a chart, if you would like, one that I keep on my desk, that is very old, November of 1957, showing the relationships of the tariffs in these U.S.M.C. rates and showing where they match. It is just something I take from posted prices.

Now, that does not necessarily reflect the value of that oil to the integrated oil companies. You know the conditions in Canada.

I would be reluctant to get into a discussion of the oil companies' business to that extent, but if a company has a field in Venezuela and one in



Canada, with pro ration in Canada and no pro ration in Venezuela and can ship 10 barrels of one to one barrel of another and make a dollar a barrel, economically it would favour that type of business.

I regret very much that I might be quoted on this sort of thing, but it is just an illustration of what can happen. It is overall economics, not necessarily policy.

MR. PATTILLO: Well, you are helping the Commission very much, Mr. Morrison, and I do not want to embarrass you, but we have got to try to get this information from somebody and have an overall understanding of the picture.

MR. MORRISON: That sort of thing has been published in all of the oil journals in the past year or so, rather frequently, I think, so it is just a general sort of statement.

MR. PATTILLO: They have oil in one country where they can ship to their heart's content and make a profit and they are going to let the other sit, is that your situation?

MR. MORRISON: Well, the restrictions have had some effect on that, too.

MR. PATTILLO: Can you tell us anything about the present prices, as you understand them, of Venezuela and Mid-East oil from the charts which you have, the laid down prices in California?

MR. MORRISON: I would prefer that Mr. Hurd,



who made some calculations much more recently --

I just keep this as a quick reference.

MR. HURD: I think the same comments apply, that this is almost purely a mathematical exercise, because there are many factors which determine which crude is more desirable from the oil companies' standpoint, but the result of the mathematical exercises is that as far as delivery at San Francisco is concerned, Redwater crude from Alberta will lay into San Francisco on the basis of posted wellhead prices, today's gathering and trunk-line charges, loading charges, and on the basis of tanker rates equal to U.S.M.C. rates and including the 10 1/2¢ import tariff into the United States, at \$3.4147, and one other condition I forgot to mention is the U.S. dollar parity.

Now, that same crude oil, at a tanker rate of U S.M.C. minus 50 per cent and dollar parity is \$3.3087.

The same crude oil at U.S.M.C. minus 50 per cent but a condition where the Canadian dollar is equivalent to \$1.03 U.S., which is roughly what it is today, I think, that figure becomes \$3.4016.

Then, taking as a typical Middle East crude, crude oil from Western Europe, which I think is as nearly equivalent, value-wise, to Redwater as the ordinary crudes from there, the three corresponding figures to the three I have given you are \$4.3850, \$3.3050 and the third number is the same, \$3.3050.



Another crude oil from Venezuela, that is again roughly equivalent, quality-wise, to Redwater, maintaining the three figures are, \$4.0093, \$3.5822 and the third number is the same, \$3.5822.

MR. PATTILLO: So at the present time, on the basis of these spot tanker prices that are generally prevailing, Redwater crude could be laid down more cheaply than Venezuela?

MR. HURD: It appears so, yes.

MR. PATTILLO: But it cannot be laid down more cheaply than Mid-East?

MR. HURD: Now, this is in San Francisco you are speaking of?

MR. PATTILLO: Yes.

MR. HURD: On the basis of the figures that are the result of these mathematical exercises, that is true; but there are so many other factors that are internal with all companies that have to do with getting movement of their oil from Venezuela to their destination on back haul -- they may be taking a load somewhere else and getting a cheaper rate on the way back; all sorts of things enter into it that colour the thinking and can perhaps make that statement not true.

MR. MORRISON: Also we do not know what their long-term charters are. They may be U.S.M.C. minus 50 per cent or 60 per cent. These are calculations, mathematical exercises, as Mr. Hurd said,



based on posted prices, spot tanker rates, just an indication.

MR. PATTILLO: Let me put this question, Mr. Morrison, and if you do not want to answer, simply say so:

If these companies that were producing in Alberta and had connected to your line were interested solely in that operation and none other, then am I correct in suggesting that there would not have to be very much price differential from the present posted field prices for them to be able to be in strong competition with any oils in the San Francisco Bay area?

MR. MORRISON: San Francisco is pretty marginal right now. Even Puget Sound is marginal, but it could be; I do not quarrel with you.

MR. PATTILLO: So that there are other factors except price that enter into this picture when you find a substantial drop in shipments?

MR. MORRISON: No. When it is posted price, yes; but that is not really "price" to these people.

MR. PATTILLO: Well, let us put it this way: there are other factors other than mere posted price that must be in the picture when you find them cutting back on your shipment?

MR. MORRISON: You must keep in mind that variation in spot cargo rates has, in the past year and a half, varied by as much as three or four times almost the value of the oil that is being transported,



say, from 83¢ to \$6.00-and-something for oil in Western Europe, and Persian Gulf is \$2.12, heavy oil is \$1.80 and oil at the wellhead in Alberta may be \$2.56 or \$2.60.

MR. PATTILLO: What is the present posted price of domestic oil in California?

MR. MORRISON: I saw a price for this four corners oil that is being shipped this month to California at \$3.31, I think. That is a very high price.

The posted price of the fields in the San-joaquin Valley is probably down about \$3.00. That is purely memory work. I don't look at this very often.

MR. PATTILLO: I appreciate that. Mr. Hurd, have you some other calculations that you think would be helpful?

MR. HURD: I have similar figures for oil delivered to the Los Angeles area.

MR. PATTILLO: Would you tell us about those?

MR. HURD: They show roughly the same trend as San Francisco, a little less favourable to Canadian oil, because of the slightly longer shipping haul from Canada and slightly shorter from Venezuela; roughly the same from the Middle East. I can give you the numbers, if you like.

MR. PATTILLO: Yes.

MR. HURD: Redwater is the same condition



as the numbers I gave you before, the delivered prices, on the basis of 100 per cent U.S.M.C. tank rates and U.S. dollar parity, \$3.4677. At U.S.M.C. minus 50 per cent and dollar parity, \$3.3352. At U.S.M.C. minus 50 per cent but with the Canadian dollar equal to \$1.03 U.S., \$3.4281. The corresponding figures for Middle East crude are \$4.4370, \$3.3310 and the same number, \$3.3310. The corresponding figures for Venezuelan crude are \$3.9497, \$3.5524 and the same number again, \$3.5524.



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MR. PATTILLO: Mr. Hurd, those companies bringing in Venezuelan crude or Mid-East crude into California would be in most instances bringing it under long-term charters which would not have that reduction from the U.S. marine rate that a spot charter might have?

MR. MORRISON: I do not know how many companies are bringing in Venezuelan crude as a regular matter. Undoubtedly, some of them are. The more recent deliveries, I think, have been from Sumatra. There has been a good deal of development there since the war. It is the same problem, of course, but the Pacific Northwest -- I doubt very much that that has been a great factor

MR. PATTILLO: Then you say in Exhibit 7: This is at the refinery of Standard Oil Company of California at Richmond -- where is that in relation to Los Angeles or San Francisco?

MR. MORRISON: It is San Francisco Bay; none of these refineries are at San Francisco; Standard No. 1 refinery right down the Bay across from Sausalita and up the Bay to Oleum; that is Union Oil. There is Martinez, Shell Oil; up further Avon, Tidewater Oil Company. Those are all on San Francisco Bay.

MR. PATTILLO: And when we are talking about San Francisco prices, that is San Francisco Bay?



MR. MORRISON: Yes, inside the Golden Gate.

MR. PATTILLO: Which Exhibit shows your list of Directors?

MR. MORRISON: The second, I think.

MR. PATTILLO: Mr. R. D. Baker, who is President of Standard Oil Company of British Columbia Limited -- that is a wholly-owned subsidiary of Standard Oil Company of California; is that right?

MR. MORRISON: That is right.

MR. PATTILLO: Have you ever asked Mr. Baker why his company is not shipping any quantities of Canadian crude to the San Francisco Bay area?

MR. MORRISON: I hate to tell secrets; they were the first one to cut-back and I do not think Mr. Baker knew at the time why. He was very surprised at the first cancellation.

MR. PATTILLO: Did he, subsequently, make any inquiries and report to you?

MR. MORRISON: He does not report to me, no.

MR. PATTILLO: Did he tell you?

MR. MORRISON: I do not recall, frankly, whether I asked him a direct question or not. He used to tell me it was rather rude to ask direct questions.

MR. PATTILLO: Mr. Morrison, I am afraid



I am being rude.

MR. MORRISON: I will say I tried to find out.

MR. PATTILLO: You know as a fact they have substantial holdings of oil in Alberta?

MR. MORRISON: That is right.

MR. PATTILLO: You cannot give us any explanation as to why they cut-back?

MR. MORRISON: First of all, they had high stocks during the period when we were still shipping from British Columbia to San Francisco. We were also shipping as far as Los Angeles; Richfield was taking oil and the Puget Sound Refineries. I think when the restrictions went on, there was oil afloat and a lot of that came into California; just who got it, where it went, I do not know but the stocks overall built up to such an extent and so quickly they had to cut-back. They cut-back on deliveries. I know one company that has production in Canada, in the Middle East, Venezuela and Dutch East Indies had to cut way back and they are not taking in any foreign oil other than Canadian oil but, I believe, they are moving some of their own production from the south of California up to Puget Sound and I would guess it costs them more to do that than the posted price of Canadian oil but they have contracts for the use of California oil, their own production. That



is something that is within the companies and, I suppose, to those refineries Canada is a foreign country.

MR. PATTILLO: That is Shell you are talking about?

MR. MORRISON: I would rather not mention names.

MR. PATTILLO: If you know and can tell us, it would be very helpful.

MR. MORRISON: I would prefer you to guess.

MR. PATTILLO: Who is Mr. R. L. Bridges of Thelen, Marrin, Johnson & Bridges; is that a law firm?

MR. MORRISON: Yes, sir; he is an attorney in San Francisco. He does a great deal of the work for the Bechtel Corporation and was the original president of Trans Mountain.

MR. PATTILLO: Mr. Day, he is Vice-President of Richfield Oil Corporation. Richfield Oil has been a shipper over your lines, has it not?

MR. MORRISON: Yes.

MR. PATTILLO: How long since it has done any shipping?

MR. MORRISON: Following the enclosure of the Canal they reduced and then stopped.

MR. PATTILLO: When did they stop?

MR. MORRISON: I suppose around July,



August, mid-year 1957.

MR. PATTILLO: What does Mr. Day say as a director of Trans Mountain about Richfield Oil, of which he is Vice-President, having discontinued shipping over the facilities of Trans Mountain?

MR. MORRISON: He says he cannot afford to pay the price for the Canadian oil.

MR. PATTILLO: Has Richfield Oil any holdings in Alberta or do they buy?

MR. MORRISON: They have the one we are keeping our eye on; Kenai Peninsula, Alaska, right near Tidewater; a 900 barrel a day well and they may be another threat in the future.

THE CHAIRMAN: Alaska, did you say?

MR. MORRISON: The Kenai Peninsula, on the south shore.

MR. PATTILLO: Have they any oil in Alberta or do they buy?

MR. MORRISON: They do have, yes, but I do not know just where. They have not been a shipper-owner, as we call Imperial and Shell.

MR. PATTILLO: They are not a shareholder?

THE CHAIRMAN: A shipper-owner?

MR. MORRISON: They are a shareholder but the shipper-owners have been the major companies, B. A. and Shell.

MR. PATTILLO: British-American Oil,



have they been shipping into the States or simply into British Columbia?

MR. MORRISON: They have been shipping to one of the refineries in British Columbia. Is that technically correct, Mr. Hurd?

MR. HURD: Yes.

MR. PATTILLO: And Imperial Oil shipping to its refinery in British Columbia?

MR. MORRISON: Correct, and Shell Oil and Standard.

MR. PATTILLO: And Shell has also been shipping to its refinery outside of Canada?

MR. MORRISON: That is right. You are aware that British-American will have a refinery in operation at the end of this year in B.C. and they will be shipping.

MR. PATTILLO: What does Mr. Vale as Executive Vice-President of Shell Oil Company tell you as a director of Trans Mountain is the reason for their cut-back?

MR. MORRISON: Mr. Vale is a new addition to the Board and does not know much yet about the operation. He has just attended one Board meeting and has listened more than done any talking.

MR. PATTILLO: Mr. Chairman, this might be a good place to have a break for lunch. I am not certain whether I am going to ask any further questions or not and I would like to consider that



at recess, if I may.

THE CHAIRMAN: Your idea is just a ten minute break, is it?

MR. HURD: Mr. Chairman, may I answer specifically the question that Dr. Britnell asked earlier?

THE CHAIRMAN: Certainly.

MR. HURD: The question as to the figure of 71,900,000 barrels of Canadian crude oil that have been exported, shown on page 18, that is from December 31, 1957, which does not include the exports so far in 1958.

MR. COMMISSIONER BRITNELL: From when?

MR. HURD: From the beginning of our operation.

MR. COMMISSIONER BRITNELL: But you did not start exporting until after the start of your operations.

MR. HURD: During the fourth quarter of 1954.

MR. COMMISSIONER BRITNELL: That is when you started exporting?

MR. HURD: Yes.

MR. COMMISSIONER BRITNELL: Thank you, very much.

---A short recess.

THE CHAIRMAN: Gentlemen, the Commission



will now resume its hearing. Mr. Pattillo?

MR. PATTILLO: Mr. Morrison, I just have a few more questions. First of all, looking at Exhibit 2, the last director is Mr. Wahn, is he Secretary of the Company and is he a solicitor in Toronto?

MR. MORRISON: No, Mr. McQuarrie is Secretary; he is just a director and legal counsel.

MR. PATTILLO: Legal counsel for Canada?

MR. MORRISON: Yes, and he did occupy that office in the formative stages; he was Secretary.

MR. PATTILLO: Mr. Morrison, you undoubtedly have seen in the paper some talk about building a pipeline into Montreal and shipping oil and that that could be done if there was a reduction of ten cents in the wellhead price of oil. That is one of the things that have been talked about. Having regard to the figures that Mr. Hurd has given us as to the comparative costs laid down in San Francisco and Los Angeles, what, in your opinion, would be the competitive situation in those areas if there was a reduction in the wellhead price of oil of ten cents?

MR. MORRISON: What would be -- excuse me?

MR. PATTILLO: There has been talk about building a pipeline to Montreal and one of the things they have been talking about as making that market attractive to Canadian crude, is a reduction of ten cents of wellhead oil. If you had a reduction of



price of ten cents, I am asking you what, in your opinion, that would do to your competitive position in San Francisco and in Los Angeles?

MR. MORRISON: There was a reduction of seven cents just a short time ago and it did not do anything and that is only three cents short of ten cents.

MR. PATTILLO: That did not have any effect at all?

MR. MORRISON: Not yet.

MR. PATTILLO: As I understand it, the way you operate, you merely ship -- take the business that is offered to you and do not go out looking for business?

MR. MORRISON: That is right

MR. PATTILLO: So that you could have a reduction of fifty cents, and if this follows, and you did not want to ship it would not do you any good?

MR. MORRISON: It is a pretty hypothetical question. I think it would do us some good.

MR. PATTILLO: If it went as high as that?

MR. MORRISON: A reduction of fifty cents in the delivered price at Puget Sound or San Francisco Bay, I believe would.

MR. PATTILLO: Well, you could reduce your tariff still further by another nickel if



you had your line full and still make money?

MR. MORRISON: By "line full" you mean delivering to capacity?

MR. PATTILLO: Yes?

MR. MORRISON: Yes.

MR. PATTILLO: Let me put this to you: what, in your opinion, would be the result if you did reduce your tariffs by a nickel and, at the same time, the wellhead price for Alberta oil were reduced ten cents? Do you think that would result not having your shipping to capacity?

MR. MORRISON: I would guess it would not give us capacity throughput; it might have some effect. We have had equivalent reductions when crude was nearly \$3 and the dollar dropped 3%. We had a fair reduction there.

MR. PATTILLO: That is, in fact, about what you did when you made your 5% reduction and at the same time the dollar dropped 3¢?

MR. MORRISON: Yes; the dollar did not drop just as quickly as the tariff.

MR. PATTILLO: In your brief on page 12 you refer to the fact that your American subsidiary is under the jurisdiction of the Interstate Commerce Commission and that it regulates your tariff. To what extent does it regulate it beyond merely requiring you to file?

MR. MORRISON: It approved.



MR. PATTILLO: Was that an unopposed application?

MR. MORRISON: I believe so.

MR. McQUARRIE: Yes, it was unopposed. The I.C.C. have made one or two wording changes in our tariff.

MR. PATTILLO: Do they have a formula which they require you to follow in fixing your tariff?

MR. McQUARRIE: Not that they have advised us of.

MR. PATTILLO: Would it be possible to have a tariff over an oil pipeline which would be similar to the tariffs charged by tankers; that is, your tariffs would be shifted day to day and for each shipment?



MR. MORRISON: Well, for one thing, the pipelines do not have the same freedom that the shipping companies have; they can fix a rate anytime. I don't know much about the shipping business, but to change a tariff you have to go through certain motions, file your tariff in advance and so on.

MR. PATTILLO: That is all you have to do in Canada, isn't it? Nobody inquires into the adequacy or inadequacy of it or the fairness of it.

MR. MORRISON: Not at present. We haven't been declared a common carrier.

MR. PATTILLO: But you are not, in fact, and never have been since you have operated.

MR. MORRISON: I think because of the way we have conducted ourselves, we have not required a declaration.

MR. PATTILLO: Would it be possible to have your tariff set up whereby shippers could ship certain quantities this week at a certain price and next week they would be shipped at another price and those prices would vary depending upon tankers rates varying?

MR. MORRISON: I don't think it would. I have never given any sufficient thought to it. I don't think it would be a feasible thing at all.

MR. TAYLOR: In the States we have to give 30 days' notice. That is one technical bar.

MR. PATTILLO: The States don't affect any



part of your line except that part in the States.

MR. MORRISON: Which is 50%. It has been more and it has been less than 50% of the business.

MR. PATTILLO: I am not talking about the business. So far as the tariff is concerned, United States authorities only deal with that part of the line which is in the United States.

MR. MORRISON: Yes.

MR. TAYLOR: The tariff is a through tariff to the destination, in the State of Washington. In other words, we don't have a tariff to the border and another tariff from the border to the south.

MR. PATTILLO: But you could have where that would only deal with that part of the tariff which related - -

MR. MORRISON: Yes. I believe Interprovincial have.

MR. PATTILLO: What about these Japanese shipments you made in 1956? Is there any possibility of there being a market there for Canadian crude?

MR. MORRISON: Not under existing circumstances.

MR. PATTILLO: What are the existing circumstances?

MR. MORRISON: Cost. They can get it cheaper from elsewhere.

MR. PATTILLO: From Sumatra?



MR. MORRISON: Yes, Sumatra, Persian Gulf.

MR. PATTILLO: Those are all the questions I have, Mr. Chairman.

THE CHAIRMAN: Thank you, Mr. Pattillo.

Mr. Morrison, this question of capital structure of the control of pipeline corporations and the questioning that Mr. Pattillo was pursuing toward that end are directly -- well, they constitute a direct reference to this Commission, and that is what we are trying to get at in order to know the facts in connection with Trans Mountain. Have you got a copy there of Trans Mountain's last annual report? There are outstanding 1,504,528 shares; is that correct?

MR. MORRISON: Yes.

THE CHAIRMAN: That is subject to the possibility of increase through stock purchases, through stock options.

MR. MORRISON: Yes. That is subject to correction.

THE CHAIRMAN: Let us take the figure of 1,500,000 shares outstanding. That is the equity capital of Trans Mountain, you have explained in the brief how that was brought up, and your idea was to finance the company by approximately \$15 million of equity and \$65 million of debt.

MR. MORRISON: Yes, that is the original.

THE CHAIRMAN: And to put more in



you increased the debt.

MR. MORRISON: Yes.

THE CHAIRMAN: What is the proportion of the capital represented by debt and represented by equity?

MR. MORRISON: I think the Treasurer has those figures.

MR. TAYLOR: Well, as close as may be, there is \$27 million of equity and \$97 million of debt. That is including retained earnings.

THE CHAIRMAN: Let us keep it to the capital structure.

MR. TAYLOR: That would be roughly 15% still. We have 14.9 of equity and \$97 million of debt, roughly 15%.

THE CHAIRMAN: And of that debt which of those issues were marketed in Canada?

MR. TAYLOR: The series A and the series D. The original series A was 30 million, and series D was sold last year at 15 million. There was originally 45 million of Canadian pay issue.

THE CHAIRMAN: The United States pay bonds were sold primarily in the United States?

MR. TAYLOR: Yes, that is right.

THE CHAIRMAN: Your main underwriters, syndicates, would have been American investment firms for your United States pay bonds.

MR. TAYLOR: Yes.



THE CHAIRMAN: And Canadian investment firms for your 45 million of Canadian pay bonds?

MR. TAYLOR: Yes.

THE CHAIRMAN: Do you know to what extent Canadians took up those two issues of 30 million of series A and 15 million of series D in Canadian pay bonds?

MR. TAYLOR: Yes. Incidentally, all these issues were private placements, there was no general issue in small pieces. It was all sold to institutions on the original series A. I think there were two American insurance companies who are not licensed to do business in Canada, and perhaps they should be considered non-resident. The other insurance companies were doing business in Canada, and I think you could fairly call that a Canadian sale. So with the exception of perhaps 2 million of the series A, I think you could fairly say they were all sold in Canada.

THE CHAIRMAN: With the exception of 2 million.

MR. TAYLOR: Yes, perhaps 2 million.

THE CHAIRMAN: And on series D?

MR. TAYLOR: Series D is the same thing. I think series D you could really say was all sold in Canada, either bona fide Canadian residents to American insurance companies doing business in Canada.

THE CHAIRMAN: And series B and series C and series E in United States funds were sold likewise



to institutions in the United States.

MR. TAYLOR: Yes. In series B and C we had only two purchasers and about $3\frac{1}{2}$ million were to the American position, Sun Life.

THE CHAIRMAN: So the Sun Life through the United States office purchased - -

MR. TAYLOR: A little better than 3 million in series B and C, and one other, the Prudential, took the rest.

THE CHAIRMAN: So individual investors in Canada didn't have an opportunity to purchase any of the funded debt; is that correct? I am not suggesting that is wrong, I am just getting the picture.

MR. TAYLOR: No, that is right. There was no general debt issue.

THE CHAIRMAN: The same thing applied to the United States issue on your funded debt, the United States pay.

MR. TAYLOR: Yes.

THE CHAIRMAN: You have explained in the brief of the offering of 450,000, I think my recollection is, of equity in Canada; is that correct?

MR. TAYLOR: Yes.

THE CHAIRMAN: And you did the best you could with your underwriters to ensure that Canadians had an opportunity to invest. Have you any idea what the proportion was at the time? I mean, you have



given us a tabulation of the Canadian resident shareholders according to the public register, but at the time of the issuance of the 450,000 shares, ostensibly to Canadians, did you receive any report or did you investigate at all with your underwriters in Canada as to what their sales slips would show as to where those shares went?

MR. TAYLOR: My recollection is, and I had the list before me at the time in 1952, that well over 90% had Canadian addresses.

THE CHAIRMAN: Well, then, would you be good enough to tell the Commission where the control, the voting control of Trans Mountain Pipe Lines now lies?

MR. TAYLOR: I wonder if you would refer to the bottom of the righthand side of Exhibit 5.

THE CHAIRMAN: I know if you take the four 130,000 lots, that gives you 520,000.

MR. TAYLOR: I think the answer, Mr. Chairman, is that there is no -- the voting control doesn't lie anywhere specifically. The 881,000 shares held by all other shareholders control it.

THE CHAIRMAN: 881,000, you say.

MR. TAYLOR: Well, at the bottom of Exhibit 5 on the righthand side. I have a short summary there. I showed the major oil companies at the present time holding 570,000 shares, other oil companies holding 53,000, all other shareholders 881,903.



THE CHAIRMAN: Well, in reality control lies with certain of the oil companies as with the shareholders who are the deficiency agreement guarantors.

MR. TAYLOR: Yes, if the other shareholders don't gang up and vote against them.

THE CHAIRMAN: Yes. It isn't a 50% control necessarily but it is roughly 33%.

MR. MORRISON: We had slightly over a million proxies at the last annual meeting.

THE CHAIRMAN: Well, with a million proxies it was over 50% control from the point of view of the proxies that came into the meeting.

MR. MORRISON: Yes.

THE CHAIRMAN: Well now, has any foreign oil come into the western part of Canada and British Columbia in recent years?

MR. MORRISON: When you say "foreign oil" do you mean crude oil?

THE CHAIRMAN: Yes.

MR. MORRISON: There has been a certain amount of product shipment, but I don't believe there has been any crude oil. The refineries all run 100% Canadian crude. There might be a small amount of blending stock for, say, an asphalt base which didn't match the properties of the residue. There would be a very, very small amount.



THE CHAIRMAN: But some products do come in.

MR. MORRISON: A certain amount. I think fuel oil -- in some of the long-term contracts the oil companies have fuel oil.

MR. HURD: Yes, the numbers are very small now.

MR. MORRISON: Actually we made an examination of that as best we could a few weeks ago, and it looked like something like 14,000 barrels a day would be the total that has come into British Columbia, in 1957, wasn't it?

THE CHAIRMAN: Of crude?

MR. MORRISON: No, of everything. There would be no crude.

THE CHAIRMAN: Have you and the management of Trans Mountain Oil Pipe Lines had any concern that crude oil might come, or products, into the Western Coast of British Columbia?

MR. MORRISON: Not to date.

THE CHAIRMAN: Can you foresee that such a thing could happen?

MR. MORRISON: Well, I don't see how shipping companies can run indefinitely at a loss, and some of the rates that have been paid I believe are below operating costs. They are probably losing money.

THE CHAIRMAN: You are speaking of tankers?

MR. MORRISON: Of tankers, yes. That is the only way crude oil can come into British Columbia at



the present time.

THE CHAIRMAN: And some of the so-called integrated oil companies have their own fleets of tankers, do they not?

MR. MORRISON: Yes.

THE CHAIRMAN: And no one has any knowledge of what the cost of operation of those tankers is?

MR. MORRISON: Well, normal shipping costs.

THE CHAIRMAN: Yes, but I mean in depreciation and all the rest of it and what they cost when built. We have no idea of that at all.

MR. MORRISON: The shipping position will undoubtedly right itself to some degree. A great many of the ships remained carrying cargoes in the hope that rates would improve and taking a loss, because it takes a certain amount of money to lay out a ship. I have heard recently -- there may have been other cases, too -- of one ship that has come off the ways, a 30,000 tonner, went right into mothball and never carried a barrel, so that is an indication of the shipping position at the present time.

THE CHAIRMAN: Have you, as management of Trans Mountain Oil Pipe Line, ever given consideration to the question as to whether or not it would be advisable or necessary, in the interests of your organization, to have an import duty on oil in Canada? Have you never given that consideration?

MR. MORRISON: Well, we have never done anything about it.



THE CHAIRMAN: But can you help us, give us your thinking on that?

MR. MORRISON: If you are speaking of the West Coast, it would probably do us more harm than good.

THE CHAIRMAN: Why so?

MR. MORRISON: Because I think that we can hold our own in British Columbia. I do not think we have had any calculations to show otherwise, and that would take shipping costs well below cost level.

THE CHAIRMAN: But those things happen, do they not, Mr. Morrison?

MR. MORRISON: I don't know; not that ---

THE CHAIRMAN: Well, let me put it in another way: if you were given an opportunity to have an import duty imposed on the importation of oil into the western coast of British Columbia, would you, as an organization, say, "No, we wouldn't want it, for now or the future"?

MR. MORRISON: I think so. I think there is sufficient oil in Canada to supply Canadian needs and I do not see why we should put the cost of products to the consumer up.

THE CHAIRMAN: I am not suggesting there is not sufficient oil in Canada for Canadian needs, but I am suggesting that oil might come from other parts of the world competitive with Canadian oil into the western coast of British Columbia.



MR. MORRISON: I would certainly like to give it more thought before making a statement on the matter. That is just my impression now. It has not been a problem so far as our operations are concerned and I have not discussed the matter at any length.

THE CHAIRMAN: All right. Has the American import duty been a problem insofar as your operations are concerned?

MR. MORRISON: To the extent of the 10¢, yes.

THE CHAIRMAN: Does that 10¢ vary at all? Would you tell us the nature of that duty? It is 10 1/2¢, is it not?

MR. HURD: It was 21¢ until just about the time we started to make our first delivery and at that time it was cut to 10 1/2¢. I think it was 1953 or 1954, and it has not varied from the 10 1/2¢.

MR. MORRISON: Are you sure of that?

MR. HURD: Well, I have a pretty good recollection.

MR. TAYLOR: I may be wrong in my time, but I think there was a time when it was cut from 21¢ ---

THE CHAIRMAN: Well, does that duty vary from 10 1/2¢ to 5 1/2¢?

MR. HURD: 10 1/2¢ or 5 1/4¢, depending on the gravity of the oil. There is a break point above which gravity -- that is, towards the lighter crude it is 10 1/2¢, and heavier crude is half of that or



5 1/4¢.

THE CHAIRMAN: I assumed, from the discussion this morning, that all of the oil that Trans Mountain ships for export is of the density that requires a duty of 10 1/2¢.

MR. HURD: That is correct.

THE CHAIRMAN: So that you get the heavy duty.

Well, I think the thing to do is to adjourn, gentlemen, for luncheon, and we will resume here at 2.00 o'clock, and we only have the room until 3.30.

---Whereupon the hearing adjourned at 12.25 p.m.,
until 2.00 p.m.

- - - - -



---On resuming at 2.00 p.m.

THE CHAIRMAN: Gentlemen, the Commission will resume its hearing.

Mr. Morrison, before luncheon we were speaking about markets and that sort of thing. The Commission has heard a great deal about there being a lack of market for Canadian oil and then, in the testimony this morning before us, you and your colleagues gave certain information to us.

I suppose Trans Mountain does not consider itself an organization to promote the export of oil in Canada, is that right?

MR. MORRISON: It is a straight transportation company.

THE CHAIRMAN: And if you were declared to be a common carrier, would that affect your position?

MR. MORRISON: No, sir.

THE CHAIRMAN: For what reason?

MR. MORRISON: It simply means that you would carry oil for anyone that requested it.

THE CHAIRMAN: Suppose an independent producer in Canada so requested you, what would happen, from your point?

MR. MORRISON: It is a question we discussed at considerable length and I do not know that there is any simple, straightforward answer to it.



The export of oil is regulated and we have not been declared a common carrier. If we were and if we were offered more oil than we could carry, then, as a common carrier, presumably we would have to divide that up proportionately and take a proportion of each shipper's oil. There are a number of things, regulators, that are built in, this business of not being able to get a licence to export oil beyond the carrying capacity of the system, I believe -- that has never come up, but I think that would apply; so there is a sort of built-in regulation in that way.

THE CHAIRMAN: In other words, then, when you are not carrying oil to the capacity of your system, there still is lots of room left in the licences for export for you to carry oil, is that not correct?

MR. MORRISON: Yes.

THE CHAIRMAN: So if any shipper-owner, as I think you described them this morning, were to tender you sufficient oil to take the capacity of the pipeline, would you be able to take oil tendered to you by an independent producer?

MR. MORRISON: That has not come up, but I was worried, during the Suez crisis, about the position we might be in if we were tendered oil to a greater degree than we could transport, whether or not we would have to pro rate everyone and, in doing so, whether we might have to curtail the throughputs of the Canadian refineries.



Now, I think you can see that that might pose a political problem. If, due to being a common carrier, we had to reduce or not supply sufficient oil for the Canadian refineries, I think there might be an outcry. Now, that is a hypothetical sort of thing.

THE CHAIRMAN: I do not think it is a hypothetical sort of thing. I think it is a very practical situation, myself, and the duty of the common carrier is to provide the facilities, is that right?

MR. MORRISON: Pardon, sir?

THE CHAIRMAN: The duty of a common carrier would be, under such circumstances, to provide the facilities?

MR. MORRISON: Yes, but it takes considerable time to provide facilities for greater quantities than you can carry with present equipment.

THE CHAIRMAN: Is it an unfair suggestion to say that the company, the transmitting company, is really an agent for the integrated oil companies who have refineries at the other end?

MR. MORRISON: No, sir. We would carry anybody's oil, as long as we have the capacity to do so.

THE CHAIRMAN: In reality, that means nothing ---

MR. MORRISON: That is where that export licence comes in. First of all, there is control at the source, and I do not believe that the Alberta



Government, their Conservation Board, would permit more oil to be tendered than could be transported. Now, I am not on the Board, but I would think that would be the situation; so that there is not likely to be a case of that sort arise. There are two or three things that would mitigate against it.

THE CHAIRMAN: What would they be?

MR. MORRISON: Well, this business -- you see, we know that we have got capacity for oil, the Canadian requirements on the West Coast and everything else will be exported, so I think we would only get a licence to export the remainder of our capacity, quantities.

THE CHAIRMAN: Yes, but your line is not running to capacity and, therefore, there is lots of margin in the export licence, is there not; so if an independent were to tender you oil at Edmonton to carry through at the other end of your line, would you take it?

MR. MORRISON: We would take it if he had a place to put it. He would have to arrange to have someone take it from us.

THE CHAIRMAN: That is right, so that in reality, unless the shipper has a refinery at the other end of the line, he is not a shipper on your line?

MR. MORRISON: Well, if he can take it at the terminal and export it, sell it on the open market



somewhere else, that would be perfectly all right.

THE CHAIRMAN: Has that occurred?

MR. MORRISON: No, I think that all of the oil that was shipped was ordered from the source.

MR. HURD: Possibly one of the things you mean, Mr. Chairman, is such as these two cargoes that went, one to Japan and one to France. They did not go to a local refinery of shippers, but they were sent through our line with a designated destination.

THE CHAIRMAN: But shipped by shipper-owners?

MR. HURD: That does not necessarily have to be but, in this case, yes.

THE CHAIRMAN: Has Trans Mountain ever shipped any oil other than to a shipper, tendered to it by a shipper-owner?

MR. HURD: Yes, we are doing it now. General Petroleum is not a shipper-owner and that was a shipper in our line.

MR. MORRISON: Neither is Tidewater.

THE CHAIRMAN: But they have a refinery at the other end?

MR. MORRISON: Well, they have a refinery in California, but the people in Japan wanted the oil and had refineries. Of course, it is bound to be the case, because crude oil is a raw material; it is not a finished product. The big difference is between gas and crude.



THE CHAIRMAN: What I am trying to get at is that presumably, it is common knowledge, I think, that there is a great outcry in Canada for export of oil and against the lack of market for oil. It is obviously in the interests of Trans Mountain Oil Pipe Line shareholders that their pipeline should be filled and that oil should go through its line to the fullest possible extent for export, having filled the Canadian market. Is that right?

MR. MORRISON: Right.

THE CHAIRMAN: I am wondering what you might be able to suggest as to a condition that might be considered by way of recommending as to what steps might be taken to increase the market for Canadian oil.

MR. MORRISON: Just at the present time there is a world surplus of oil, so we have to inject that oil into some area that would be rather uneconomic, and I just do not know how you can do that. If -- this is not an idea of my own; I have had a suggestion made that possibly arrangements could be made with the United States that before they start placing any quotas on Canadian export oil, they deduct the importations, and we would have that amount of oil going out and then the quota would come on that.

Now, as I say, that is not an original idea and I do not know that I have the right to



propound it; but there is a possibility for a certain amount of negotiation there.

MR. PATTILLO: Mr. Morrison, when you say they put a quota on Canadian oil, that is not correct, is it? They put a quota on imports; they do not put a quota on Canadian oil. If the Canadian oil was priced right, it could capture the whole of the import quota market.

MR. MORRISON: Yes. I am speaking rather loosely, I am afraid. I'm sorry.

THE CHAIRMAN: Well, I was going to come to that. We spoke about Redwater oil this morning, the wellhead price, as I understand it, recently being \$2.56 a barrel, so if that price were reduced and a certain amount knocked off the transmission costs, that oil would be competitive in the other end of your line, would it not?

MR. MORRISON: Well, it is competitive now at the other end of the line, but it is not competitive beyond that. That is, the additional water transportation cost is enough to make it uncompetitive.

THE CHAIRMAN: Well, it really gets back to a price at the wellhead, doesn't it?

MR. MORRISON: Plus duty.

THE CHAIRMAN: Plus transportation costs.

MR. MORISSON: We could not reduce our transportation costs at the present throughput right



now. We would be losing money.

THE CHAIRMAN: If the Canadian oil producer tendered you oil and sold it at \$2.00 a barrel at the wellhead, his trouble is that he has got no market at the other end of the line, isn't it?

MR. MORRISON: He does not tender to us at \$2.00. There is a posted price and that is supposed to be the same for oil going east or west or any other way.

THE CHAIRMAN: Based on Sarnia?

MR. MORRISON: It is a world-wide affair now. There are outlets on both coasts, and the price levels up. Right now it is Sarnia and, I think, Illinois crude.

THE CHAIRMAN: Is there anything that you can suggest that this Commission might recommend which, if it were implemented, would facilitate the export of oil?

MR. MORRISON: I don't know how you can upset the overall economics. That is what you are up against, really, basically. I do not know how -- I wouldn't, at this stage, want to discuss artificial means or anything of that sort.



THE CHAIRMAN: Well, wait now, Mr. Morrison: artificial means, the whole thing is artificial. The whole reason is, surely, the desire to keep up the price of oil, is it not?

MR. MORRISON: It comes under the heading of commodities in existence: there is keen competition in the oil business as in other industries.

THE CHAIRMAN: I will accept your opinion on that but I am not convinced.

MR. MORRISON: I am not an authority; I have never been in the marketing end of an oil company. I have spent many years in an oil company but all in manufacturing.

THE CHAIRMAN: I understand, but I was wondering whether you could help us because it is part of our direct responsibility.

MR. MORRISON: In my position I would not expect to come up with any too bright ideas on somebody else's specialty. I just have not the knowledge or wherewithal or private information.

THE CHAIRMAN: That is all right; I just thought as a company engaged in this business, possibly you had given it your consideration.

MR. MORRISON: I know they have done their best to try to move Canadian oil even to the extent of considering exchanges, but nothing has developed from it. If we could ship oil from Vancouver to San Francisco and have an oil company ship from Los Angeles



around the coast by exchange, something of that sort -- there are possibilities but they are not good enough to make any difference.

THE CHAIRMAN: Let us change the subject for a moment. Can you tell the Commission from the figures which you or your colleagues may have there: what was the per mile construction of your pipeline?

MR. MORRISON: Our chief engineer, Mr. Bailey, will answer that.

MR. BAILEY: The average per mile cost of construction of the pipeline only, the pipeline was laid in 1952 and 1953 which has a bearing on the price, was \$102,000 per mile.

MR. PATTILLO: What was it, Mr. Bailey, when you built those two extensions last year, the two small extensions; what was that cost?

MR. BAILEY: Perhaps I should have added the size of the original line was 24 inches, and the size of the section we built last year, the size of the pipe was 30 inches. Although there was a difference in the cost from the eastern to the western end, it averaged about \$190,000 per mile. I am only answering as to pipeline and I am not dealing with the cost of pumping stations.

THE CHAIRMAN: Let us try to get an overall picture: I had intended to include the facilities with the pipeline because the pipeline is no good without the facilities; so, in order to lay a



mile of pipeline to transport oil -- ?

MR. BAILEY: In round figures the programme last year, which covered 102 miles of 30-inch pipeline with the facilities was \$25 million, which is \$250,000 per mile of line.

THE CHAIRMAN: And the prior one, the original line?

MR. MORRISON: It is not a fair comparison.

MR. TAYLOR: If you could say we had 718 miles of line that cost us at the outside \$93 million, which works out to about \$130,000 a mile.

THE CHAIRMAN: That would include facilities?

MR. TAYLOR: Including facilities, houses and everything.

THE CHAIRMAN: After making allowances for the difference in the diameter of the pipe, as the cost increased to that extent?

MR. MORRISON: In order to do that, there were 102 miles of the 30-inch pipe, but in the 24-inch pipe there were several stations to push that up. So, taking all of that cost on the 30-inch pipe is not fair as the cost per mile.

MR. BAILEY: The actual cost of the pipes was about \$130,000 and the stations are over the whole line, but the increase in cost of materials on the pipeline has been very great, averaging about 7 1/2 per cent per year since 1953.

THE CHAIRMAN: Would you consider it a



fair figure for a 30-inch pipeline, just taking a rough yardstick, to be around \$225,000 per mile average?

MR. BAILEY: I would say that is a fair figure for Trans Mountain but a very high figure for other pipelines.

THE CHAIRMAN: Is that because of the terrain?

MR. BAILEY: Because of the terrain.

THE CHAIRMAN: As a matter of interest, what do you consider to be the life of a line?

MR. BAILEY: Protected as our line is, we would expect the line to last between 30 and 40 years, and, perhaps, longer without corrosion and mitigation of equipment that we have--perhaps 15 years.

MR. PATTILLO: Is it not generally expected in the oil pipeline business that a line that is treated like yours and has the protection against corrosion as yours has, has a life of at least 50 years?

MR. BAILEY: It certainly is a hope.

MR. MORRISON: It will run for 50 years by maintaining it piecemeal.

MR. PATTILLO: You are maintaining your line.

MR. MORRISON: Unless the pumps become obsolete.

MR. BAILEY: It is a hope; it is the experience that a large inch pipeline does not extend



over that time but we certainly hope that ours will last 40 years.

THE CHAIRMAN: There are those that have expressed the view with this cathode business it would last a hundred years, but as yet there is no experience.

MR. MORRISON: It is a hope.

THE CHAIRMAN: Once the line is laid, I know you discussed cost this morning, actually your maintenance is a very small proportion of your overall costs.

MR. MORRISON: It has been very high recently with slides and there are other factors that come in with an expanding Province like British Columbia. They are building highways this year and we had to move several miles of pipeline for the construction of the highway. We had to move from the side of a mountain; we had to move about 3 miles down into the valley and that included a river crossing. If that is maintenance -- it is maintenance insofar as being able to continue to operate the line.

MR. PATTILLO: At whose expense was that done when you were first there?

MR. MORRISON: It is divided.

MR. BAILEY: On a sliding mountain the expense is ours.

MR. PATTILLO: I understand on a sliding mountain, but on a highway where you are the senior



concern, am I not correct in thinking the greater part of the cost is imposed on the junior?

MR. MORRISON: We have some bills pending that are not paid; we do not know for sure.

MR. BAILEY: In certain cases we have a right of occupation on the highway but not on easement, and then we have to carry the total cost in such an area ourselves. Where we cross a highway directly and the highway moves onto land on which we have rights, then we are protected.

MR. TAYLOR: Could I come back to the Chairman's question of the maintenance cost being low?

THE CHAIRMAN: Certainly.

MR. TAYLOR: Really, what we are maintaining is the right-of-way and not the pipe.

THE CHAIRMAN: I understand.

MR. TAYLOR: So the cost of maintenance is really high; we have to have stand-by people and equipment plus any work that has to be done.

THE CHAIRMAN: What would be your average per annum per mile maintenance cost on your right-of-way?

MR. BAILEY: At present we are budgeting on a basis this year that it will cost about \$700 per mile for maintenance.

MR. MORRISON: Mr. Chairman, could Mr. McQuarrie add to Mr. Pattillo's last question?

THE CHAIRMAN: It takes a lawyer to answer



a lawyer.

MR. McQUARRIE: The point we want to make is that when our line first went through we inquired, among other things, as to easements from the Crown. With the construction of the 152 miles in 1957, we needed additional easements and the new easements that we now received from the Province of British Columbia by way of Order in Council are different in terms than the original which required us to move at our own expense.

MR. MORRISON: So it does not become a matter of who was there first.

MR. PATTILLO: When you got your easements from the Crown, did you have to pay anything for them by way of compensation?

MR. McQUARRIE: Yes.

MR. PATTILLO: Anything like you have to pay when dealing with private individuals?

MR. McQUARRIE: We paid on the original line 50¢ a rod for an easement on all Crown land east of Hope; \$1.00 a rod, or \$44 an acre on all land west of Hope. I think we could have bought it for \$1.50 an acre. That is what we paid. We paid \$1.00 a rod to all our property-owners through that area.

MR. PATTILLO: They certainly had not heard about the land Interprovincial was going through when there were prices like that.

MR. McQUARRIE: That is not particularly



all we paid.

MR. PATTILLO: You paid damages.

MR. COMMISSIONER LEVESQUE: I have just one short question:

Would you have your average daily delivery for the first part of the year?

MR. HURD: It is in the brief; page 140.

MR. MORRISON: It is one of the tables I did not read; 102,180.

MR. COMMISSIONER LEVESQUE: At 102,000 you still make money?

MR. HURD: Yes.

MR. MORRISON: We just figured it out yesterday.

MR. TAYLOR: Mr. Morrison said at the annual meeting on the 9th of April we were going to make a modest profit and if we did it would be in the neighbourhood of 25¢ a share.

MR. COMMISSIONER LEVESQUE: So with an average of 100,000 your profit would be 25¢ a share?

MR. TAYLOR: That is about what it is.



MR. COMMISSIONER HARDY: Mr. Chairman, there are one or two questions I would like to ask Mr. Morrison. One is, who owns the Peace River Oil Company that brings the oil from Sturgeon, is it, to your line at Edsom?

MR. MORRISON: Well, B.A. are the largest owners. Is that in the brief in that table? I don't know offhand who are in that. B.A. operate it, and it is B.A. we deal with.

MR. COMMISSIONER HARDY: Is the oil brought down from Sturgeon comparable to what you are transmitting?

MR. MORRISON: Yes. We are taking about 12,000 a day. Just now we are batching it.

MR. COMMISSIONER HARDY: So the three storage tanks of 80,000 are comparable to what you have for storage at your Edmonton terminal.

MR. MORRISON: Oh, that is sufficient to allow us to accumulate sizable batches to inject into the other oil as it comes along.

MR. COMMISSIONER HARDY: There is nothing peculiar about the grade or the quality of the oil; it could be marketed in Montreal as well as at the coast.

MR. MORRISON: Yes.

MR. COMMISSIONER HARDY: I was rather interested this morning in your references to the Board of Transport Commissioners, and we have not



had put before us previously anything about the requirements of the Board of Transport Commissioners or what control they have over your operations other than through permits, and I was wondering if perhaps Mr. Bailey could give us this answer best of all. Would you outline briefly the control the Board of Transport Commissioners has over your engineering designs and things like that?

MR. BAILEY: The Board of Transport Commissioners for Canada have very wide powers and exert these through published general orders which govern largely the design and detail construction of pipelines in so far as they deal with the crossing of roads, railroads, other pipelines and transmission lines. The general practice in a project of building a pipeline is to have authority extended to us by the Board of Transport Commissioners step by step. That is, the first thing that would be done would be the approval of the route by the Board, and that might result in authority, giving us authority to construct, and before the construction they would approve the specification of the line and in so doing establish the pressures at which we could operate the line at these particular places and the materials of which it would be built. Before the line could be put into service their engineering department -- they have a very capable engineering department -- would send people out into the field and personally supervise the main



testing of sections of the line and while it was being tested and report on it to Ottawa, and if successful it would result in the issuing of an order to operate. So you can say right through the construction of the pipeline the Board are exercising almost complete control over the route, pressure crossing, construction, testing and finally operation.

MR. COMMISSIONER HARDY: Is there any provincial control of your line other than the Board of Transport Commissioners? What about the Highways Department?

MR. BAILEY: We, of course, are an inter-provincial pipeline and we are governed by the Board only.

MR. COMMISSIONER HARDY: So far as highways are concerned, it is the Board of Transport Commissioners who rule whether they are acceptable or not.

MR. BAILEY: Yes, and they approve the design of the crossing.

MR. COMMISSIONER HARDY: If anyone were to be so rash as to go against them there would be a slight complication there, perhaps in jurisdiction or authority. It would be rather difficult, I imagine, to separate the function the Board of Transport Commissioners now serves in standards of construction to turn that over to a completely new authority.



MR. BAILEY: One of the reasons for our recommendation, sir, was that the very real work that is done by the Board and their engineering director and engineering staff would have to be replaced by some other body. In other words, if you were going to have another body you would have the same group built up within it, I would think.

MR. COMMISSIONER HARDY: You feel that that function has definitely got to be performed by someone.

MR. BAILEY: As we understand it, the main reasons for this extreme care in supervision are, firstly, the protection of the community, and by that I mean not only the people in it but the roads and the services. These are the two overall reasons which must be to some standard, I would think. At least we have found it in almost every other branch of engineering.

MR. PATTILLO: Mr. Bailey, apart from this supervision that is exercised by the Board of Transport Commissioners over the design, location and construction of the pipeline, the Board does not, in fact, exercise any of the other powers it has.

MR. BAILEY: In our case they have not so exercised it.

MR. TAYLOR: There is one slight modification of that. We are now working under a system, still in the form of a draft, a uniform system. All the interprovincial pipelines have agreed to



work under it from January 1st last.

MR. PATTILLO: Who set that up?

MR. TAYLOR: The Board of Transport Commissioners and their advisers. I helped.

THE CHAIRMAN: The industry itself played a predominant role in that.

MR. TAYLOR: That is true. I think it must be. It was the industry that knew how the accounts were kept and how to fashion it into what we would desire. What I was trying to get at is, the Board of Transport Commissioners has that under its function.

THE CHAIRMAN: Any further questions, Mr. Pattillo?

MR. PATTILLO: Nothing else, Mr. Chairman.

THE CHAIRMAN: Well, thank you very much indeed, Mr. Morrison. Your colleagues have been very patient and long-suffering, shall I say.

MR. MORRISON: It has been quite an experience. We appreciate it very much.

THE CHAIRMAN: We appreciate it that we got you to Victoria, because we finished our itinerary, and the manner in which you and your colleagues have co-operated with the Commission and the staff of the Commission, and we express our gratitude.

The hearing is adjourned until tomorrow morning in this room at 10.00 a.m.

---Whereupon the hearing adjourned at 2.40 p.m. until 10.00 a.m. on Wednesday, April 23, 1958.

Mr. Gordon

ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

VICTORIA

B. C.

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ROYAL COMMISSION

ON

ENERGY

Hearings held at Victoria,
commencing Monday, April
21, 1953, at 10.00 a.m.

PRESENT:

Mr. H. Borden, C.M.G., O.C.	-- Chairman
Mr. J.L. Levesque	-- Member
Mr. G.E. Britnell	-- Member
Dr. R.D. Howland	-- Member
Mr. L.J. Ladner, O.C.	-- Member
Dr. R.M. Hardy	-- Member

COMMISSION COUNSEL:

Mr. A.S. Pattillo, O.C.
Mr. Miles H. Patterson.

Mr. J.F. Parkinson	-- Secretary to the Commission.
Major N. Lafrance	-- Assistant Secretary to the Commission



APPEARANCES:

Representing The City of Prince George B.C.
and Prince George Gas' Company, Limited.

Carrie Jane Gray	- Mayor of Prince George
Hume Wright	- Vice-President of Prince George Gas Co. Ltd.
William McBean	- Consulting Engineer
David Tupper	- Counsel

EXHIBITS

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V-23-2	Letter dated April 21, 1958 from Eagle Lake Sawmills Limited to The Chairman, Royal Commission on Energy, Victoria, B.C.	3833



APPEARANCES:

Representing Westcoast Transmission Company
Limited:

Frank M. McMahon	-	President
C. R. Hetherington	-	Vice-President
D. P. McDonald	-	Managing Director
T. G. Norris, Q.C.	-	Counsel

EXHIBITS

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Wednesday,
April 23, 1958.

---On resuming at 10.00 o'clock.

THE CHAIRMAN: The Commission will now resume its hearing but before proceeding with the submission which comes before us today, I wish to make a statement.

Counsel for Westcoast Transmission Company Limited has drawn the attention of the Commission to an editorial in "The Province" of Vancouver in its issue of April 22nd headed "Government's Responsibility on Natural Gas". The Commission has, as yet, made no findings or recommendations of any nature but is in the process of hearing evidence with respect to matters included in its terms of reference. The expressions in the editorial reading "at present the public understands, on authority of the Borden Commission . . . " and "the consumers whom the Borden Commission said are being milked are British Columbians" are completely incorrect and without foundation. The Commission has requested the newspaper referred to to correct the erroneous impression created by the expressions above mentioned.

Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman.

Mr. Chairman, today we are going to hear from the



City of Prince George in the Province of British Columbia and Prince George Gas Company Limited. It is a joint submission. The brief has been filed and I would ask that it be marked by the Registrar as V-23-1.

---EXHIBIT NO. V-23-1: Joint submission by the City of Prince George, B.C. and Prince George Gas Company Limited.

Mr. Chairman, I understand that Her Worship the Mayor of the municipality is present today and wishes to say a few words at the opening and then one of the officials of the company will present the brief.

I also understand that Mr. Tupper, who is appearing as counsel for the applicants today, has another small matter of a similar nature which he wishes to file at the conclusion of this presentation of which he has given copies to me and Mr. Patterson and they have been distributed. I am relating to the Eagle Lake Sawmills. I have suggested that be filed following the hearing which we are now going to have.

MR. TUPPER: Mr. Chairman, I appear for Prince George Gas Company at Prince George. I think in opening, before Mr. Wright, vice-president of the company reads the submission, I should deal with one aspect of this matter.

My clients have appealed a decision of the

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Public Utilities Commission imposing a condition on its Certificate of Public Convenience and Necessity which was granted to the Prince George Gas Co. and that decision has been heard and determined by the Court of Appeal. The reasons for judgment have not been handed down. No formal judgment has been entered.

I wish to make it clear the issues we wish to present before the Commission this morning in no way relate to the matters before the Court of Appeal. The situation there is simply the validity of a condition attaching to our certificate; a matter entirely within the jurisdiction of the provincial authorities.

The issues we wish to deal with this morning covered by our brief relates to a violation on behalf of Westcoast Transmission Company against the terms attached to its export licence as to the terms under which it will supply gas to Canadian consumers and the violation of Regulation 9 to the Exportation of Power and Fluid and Importation of Gas Act.

What we wish to do is to demonstrate a very concrete example to the Commission of a comparison between a price which has been offered to a Canadian consumer, a Canadian utility, a small utility in the northern part of British Columbia and compare that with the price which has been agreed to



be paid by the Pacific Northwest Pipeline Corporation. It is entirely towards those issues to which this brief is directed.

I thought I should say that before presenting our submission.

THE CHAIRMAN: I think, Mr. Tupper, the Commission will have to rely on you to guide us in that respect because that matter is sub judice and we do not want to get into that.



Joint Submission of
THE CITY OF PRINCE GEORGE, B. C.
AND
PRINCE GEORGE GAS CO. LTD.

APPEARANCES:

Carrie Jane Gray	- Mayor of Prince George
Hume Wright	- Vice-President of Prince George Gas Co. Ltd.
William McBean	- Consulting Engineer
David Tupper	- Counsel

STATEMENT BEFORE THE ROYAL COMMISSION ON
ENERGY BY MAYOR CARRIE JANE GRAY, PRINCE GEORGE:

The main submission of the City and the Prince George Gas Co. will deal in more detail with the highly objectionable situation which has arisen over the attempts to serve the City of Prince George with gas.

This is an issue of vital importance in my city. I have lived in Prince George for 25 years and watched it grow from a small town of less than 2,000 population to approximately 12,000 in the last eleven years. I have served three consecutive terms as an alderman of the City and am in my first year as the Mayor. It was during my first year on



the Council, seven years ago, that the first discussions were held on the gas question. I think it is astonishing that the City and the Company which received the City's franchise, should have had to fight so long and so hard for something that should have been obtainable without question in the first place.

At this point I wish to thank you on behalf of myself and the City of Prince George for hearing my few remarks.

When the Prince George Gas Co. received the franchise from the City they naturally received the full support of the City. All they have ever sought to do is to construct a $4\frac{1}{2}$ mile connecting line from Prince George to the Westcoast transmission line and to purchase a supply of gas from Westcoast at the regular Westcoast rate.

In view of our fundamental aim to obtain gas from an interprovincial company and exporter, we are grateful for the opportunity to put our case before this Commission.

I would like to emphasize that Prince George has not asked for special treatment because our City is located near to the gasfields. The "gate" price at Prince George works out to 54 cents a thousand feet at the regular Westcoast rate. This is about 20 cents more than Inland and B.C. Electric pay. It is also more than the flat "gate" price of



45 cents for a small U.S. community buying the same Canadian gas from the same Peace River fields. A rate considerably lower than 54 cents could, we feel, be justified so that consumers in Prince George would get gas at about the same rates as prevail in Alberta.

However, it was decided to ask for gas at the regular wholesale rate in the belief that it could not possibly be denied to Prince George. Incredible as it sounds, an attempt was made to force Prince George to pay a "gate" price of 83 cents. As our submission shows, there is no logical justification on any grounds for trying to force Prince George to pay 83 cents.

Natural gas is a natural resource belonging to the people of Canada, which fact seems to have been completely lost sight of by the giant monopolies that operate the wells and pipelines strictly for their own financial benefit. Whereas every ounce, pound or cubic foot of Canadian natural resources exported to a foreign country should return a subsidy to the Canadian people by way of cheaper rates.

The sale of Canadian natural gas in the U.S. was justified by the fact that B.C. has no large markets to absorb it - as yet. If our natural gas continues to be wholesaled in Canada at 50% higher prices than in the U.S., we never will have big industrial markets to absorb it.



The same thing holds for Prince George.

We have to overcome real handicaps of climate and remoteness from other areas. As yet, we have only one industry, lumbering, and our economy fluctuates with the lumber markets. We need to have secondary industries. How can we at this ridiculously high price of a resource at our very doorstep? Our City has grown and prospered. We are used to standing on our own feet and we are not overly impressed by giant corporations and great concentration of wealth and power.

The word has always been develop the northern parts of our country. Its possibilities are unlimited. Its climate is healthy, it's big, its resources are unlimited, but it is necessary for cheaper power and fuel in order to invite industries to move away from the congestion of the mainland.

Here is a case of a northern community who, with opportunity knocking at their door, has been forced to engage in a long and bitter fight and to go without gas in order to seek elementary fair play.

If I weren't so vitally concerned in this I would say that can't happen in Canada.

I earnestly place before you our concern over this matter and hope for remedied action at the earliest possible moment.

THE CHAIRMAN: Thank you, very much.

MR. TUPPER: We will now hear from Mr.



Wright on the submission of the Prince George Gas Co.

MR. WRIGHT: Prince George Gas Co. Ltd., a local company incorporated to distribute natural gas in the City of Prince George, B.C., was enfranchised by a vote of the electors of Prince George in March, 1956 and obtained a Certificate of Public Convenience and Necessity from the Public Utilities Commission of B.C. in May, 1956. Inland Natural Gas Co. Ltd. sought unsuccessfully to obtain a franchise from the City and a certificate from the P.U.C. for distribution in Prince George. The Inland Company has obtained certificates to distribute in 41 communities in the interior of B.C.

RATE DISCRIMINATION: The Prince George Gas Co. Ltd. (Prince George Gas) is being asked and with the support of the City has refused to pay a highly discriminatory price for Peace River gas in comparison to the export price and in comparison to the price at which Peace River gas is available to utilities in the United States and other Canadian utilities.

Prince George Gas is being asked to pay a monthly demand charge of \$5.00 per Mcf on peak day volume and a commodity charge of 30¢ per Mcf. This rate for Peace River gas results in average wholesale price of 83¢ per Mcf on the 31.2% load factor estimated for Prince George by Ford, Bacon & Davis Inc., consulting engineers for Inland. Over 400 miles south



of Prince George, gas from the Peace River area is exported by Westcoast Transmission Company Limited to the U. S. for $22\frac{1}{4}\phi$ per Mcf on a 90% load factor and will be exported for 22ϕ beginning in 1959, under the terms of the existing 20-year contract. On the basis of a 90% load factor, the \$5.00 demand and 30ϕ commodity rate offered at Prince George results in an average wholesale price of 48ϕ per Mcf. On the same load factor, therefore, the Prince George rate is more than double the export price, while in terms of the load factors actually involved the price at Prince George is close to 4 times the export price. Pacific Northwest Pipeline Corporation, the big U.S. transmission company buying Canadian gas at the international border from Westcoast, makes it available to a small U.S. distributing company at a flat rate of 45ϕ per Mcf. This rate is available to any gas distributing company buying from Pacific Northwest using less than one million cubic feet per day.



Ford, Bacon & Davis estimate that Prince George (population approx. 12,000) will consume an average of almost two million cubic feet per day over the first five years of natural gas service. Prince George is situated 235 miles from the Peace River gas-fields. The remarkable fact is that if Prince George were situated in the U.S. 1,000 miles from the fields and used only half its estimated requirements it could obtain Canadian gas from the Peace River area at roughly half the price it is now being asked to pay. Similarly, if Prince George were situated in the Province of Quebec, over 2,000 miles from the Alberta gas-fields, it could obtain Alberta gas for 26¢ per Mcf less than it is now being asked to pay.

British Columbia Electric Company Limited and Inland buy gas from Westcoast at \$3.21 demand and 20¢ per Mcf commodity. This rate results in an average of 32¢ per Mcf on the basis of a 90% load factor. Therefore, applying the same load factor, Prince George is being asked to pay 50% more than other B.C. utilities.

Pacific Northwest, as of January 1, 1957, had executed over 100 gas sales contracts with U.S. distribution companies, industrial consumers and other interstate pipe lines. Westcoast, in striking contrast, has refused to sell to Prince George Gas. Westcoast has entered into an exclusive



agreement with Inland under which Inland has a monopoly on the purchase of gas from Westcoast in the interior of B.C. The contract can be set aside, however, by "valid order of any public regulatory body having jurisdiction". This gas monopoly extends at present from Little Prairie in the Peace River area down through the Cariboo and Okanagan all the way over to the City of Nelson in the Kootenays, a distance of some 800 miles. If Inland is to have a monopoly on the purchase of gas from Westcoast throughout the interior of B.C., the area monopolized will be about the size of the state of Texas. Westcoast has protected Inland from competition over a huge area in a dynamic part of Canada with great growth potential over the twenty-year monopoly agreement, or even longer if the contract is extended.

Corporate Affiliations: Inland is an affiliate of Westcoast. Westcoast officers and directors or their associates, as of June 30, 1957, owned beneficially 14.6% of the total Inland common shares outstanding; as of February 20, 1956 the corresponding percentage was larger, it was then 18.19%. The President of Westcoast, Frank M. McMahon, and John A. McMahon, President of Inland, are brothers. Norman R. Whittal, a security dealer and President of Norman R. Whittal Limited, is Chairman of the Inland Board and also a Westcoast



director. The close affiliation between Westcoast and Inland is part of a much larger grouping of U.S. and Canadian corporations engaged in natural gas exploration, production and transmission.

About 65% of the gas initially contracted for purchase by Westcoast is covered by contracts with Pacific Petroleum Ltd. and its associated companies. Pacific Pete, as of June 30, 1957, owned 20.8% shares of Westcoast. More recently, this percentage increased to 32.8% so that Pacific Pete is the largest single shareholder of Westcoast. Westcoast President, Frank M. McMahon, is Chairman of the Board, George L. McMahon, a brother, is President, and Norman R. Whittall, Inland Board Chairman, is a director of Pacific Pete. Altogether, five Westcoast directors are also directors of Pacific Pete.

Pacific Northwest ranks next to Pacific Pete as the second largest single shareholder of Westcoast, owning 23.4% as of June 30th, 1957. This U.S. transmission company, by far the largest customer of Westcoast, is now taking an estimated 80% of all the gas Westcoast sells. Pacific Northwest is itself 90% controlled by El Paso Natural Gas Company; together they form the largest natural gas pipeline system in the United States. The El Paso, Pacific Northwest, Westcoast network extends from Texas and New Mexico to the Peace



River area in B.C. and Alberta. El Paso itself has a net interest in 1.5 million acres in the Peace River area. Also, Westcoast is now a producing and development company as well as a natural gas transmission company.

During the testimony of Mr. Paul Kayser, President of El Paso and Chairman of the Board of Pacific Northwest, the Commission heard an explanation of the price for Peace River gas at the U.S. border. The 22¢ price was established with a view to the eventual sale of Canadian gas in California for 34¢, a price which is only 2¢ more than the rate to B. C. Electric and Inland and which is 49¢ less than the 83¢ price at Prince George.

Development of Present Situation: When Prince George Gas applied in B. C. for a P.U.C. certificate it sought authorization to finance and construct its own 4.5-mile connecting line to take delivery of gas direct from Westcoast at the Westcoast line. At the P.U.C. hearings Westcoast testified, citing its monopoly contract with Inland, that it was unwilling to sell direct to Prince George Gas. Similarly, the President of Inland stated that his company expected to be authorized to wholesale gas to Prince George Gas. And in granting a certificate to Prince George Gas the P.U.C. attached a condition requiring



Prince George Gas to purchase Westcoast gas through Inland. At the same time, Inland was authorized to construct and own the short connecting line.

Inland then put forward a 20-year contract to supply Prince George Gas. This contract provided Inland with a wholesale rate of \$5.00 demand and 30¢ commodity for reselling Westcoast gas for which it, Inland pays \$3.21 demand and 20¢ commodity. The proposed transaction at Prince George would have given Inland a profit of upwards \$200,000 a year, or many millions over the 20-year period of the contract, for piping gas through $4\frac{1}{2}$ miles of line.

Prince George Gas refused to accept the Inland price and the matter was referred back to the P.U.C. The P.U.C. saw fit to accept the Inland price on the grounds that it complies with the terms of the certificates which it had granted to Inland and Prince George Gas. The P.U.C. however, provided that the price should be reviewed when the results of a year's operating experience were available. If the P.U.C. ruling had been accepted then Prince George Gas would have been barred from buying gas from Westcoast and left without any assurance of obtaining gas in the future at a price which would not be completely out of line with the export price and the price to other utilities using Peace River gas in the U.S. and Canada.

The certificate granted the Prince George



Company sought to justify a price to Inland that "in the initial years at least, will ensure that a contribution will be made by consumers in Prince George to the overall costs of that part of the Inland system, but for the creation of which they might never have been in a position to receive gas at all". In other words, but for the volume which Inland contracted to take from Westcoast in February, 1955, the Westcoast line, under this reasoning, might never have been constructed and natural gas might never have been available to Prince George at all. That is to say, that the \$195 million Westcoast project might never have been built if Westcoast had not been assured in 1955 of selling 18.5 million feet a day to its affiliate Inland. How does this circuitous hypothesis look in the light of actual developments? Before the Westcoast line had been completed, Pacific Northwest had signified its intention of importing an additional volume of another 300 million feet a day over and above its initial requirement for 300 million feet, plus an option for 100 million feet which it also exercised.

If there were any logical justification for compelling Prince George consumers to subsidize Inland on the ground that without Inland they might never have received gas at all, then it would be equally logical to compel Vancouver consumers



and U.S. consumers of Peace River gas to subsidize Inland on the same grounds. Vancouver and U. S. consumers would never have been in a position to receive Peace River gas either, if the Westcoast line had never been built because Inland had not contracted to take 18 million feet from Westcoast. The Inland system, moreover, running through Kamloops and over to Trail and Nelson, is closer to the Vancouver and the lower mainland area than it is to Prince George.

It should be pointed out that the assurance of the estimated Prince George volume of sales was not necessary for the financing of the Inland project. After Prince George had refused to buy gas from Inland, that company went ahead and financed its project. Inland raised \$28 million by public issues under prospectuses which expressly excluded any revenue whatsoever from the Prince George market, let alone any subsidy from Prince George consumers. Moreover, Inland prospectuses projected a greater return on capital invested with Prince George excluded than Inland had projected before the P.U.C. with Prince George included.

Determination of a Non-discriminatory Price:

What is a fair price for Peace River gas at Prince George? There are several ways of determining such a price. One method is to calculate a price which ensures Westcoast a reasonable return



for moving gas a given distance through its line. The recent study "Canadian Energy Prospects" prepared for Royal Commission on Canada's Economic Prospects states "The fixed costs of natural gas lines on the larger 30-inch to 36-inch lines fall within the bracket of 1.1¢ to 1.6¢ per thousand cubic feet per 100 miles." (The term fixed costs as used in this context includes return on capital invested.) Mr. Kayser gave the Commission a figure based on U.S. experience of 1½¢ per 100 miles. Westcoast pays a field price of 10¢ and sells for 22¢, having transported the gas some 650 miles. The resulting figure per 100 miles is therefore 1.8¢ or, say, 2.5¢ per Mcf to provide a decidedly generous basis of calculation. The delivery point for Prince George is 235 miles down the Westcoast line. The cost of transmission, therefore, over this distance, including profit, is 5.8¢ or, say, 6¢ per Mcf. As the gas costs Westcoast 10¢, the selling price at the delivery point at Prince George should, on this basis, be 16¢, not 83¢ per Mcf.

Another approach to a nondiscriminatory price at Prince George would be to use the same rate (\$3.21 plus 20¢) as charged B.C. Electric and Inland. The 54¢ per Mcf that Prince George would pay at this rate on its estimated load factor of 31.2% would give Westcoast an average of about



20¢ more per Mcf on its sales to Prince George than to Inland. This appears greatly in excess of any upward price adjustment which might be sought because of the small volume required by Prince George. Regarding volume, if lower volume justifies a higher price, why does not Inland pay more than B.C. Electric? In any case, how can a price of more than 45¢ per Mcf at Prince George be justified on grounds of volume or any other satisfactory grounds when Peace River gas is available to a smaller U.S. distributing company at a flat rate of 45¢?

The rate schedule of Trans-Canada Pipelines Limited is also highly significant in relation to the Prince George price of 83¢ per Mcf. The Trans-Canada rate schedule includes a small general service rate which is a flat rate available to utilities distributing gas only in one or more small communities. Under this rate, Alberta gas is available in Saskatchewan for 27.5¢ per Mcf, in Manitoba for 38¢ per Mcf, in central Ontario for 65¢ per Mcf and in the Province of Quebec for 67.5¢ per Mcf. For the first three years of natural gas service the gas is available at even lower flat rates per Mcf under the Trans-Canada schedule. These are: 24.2¢ in Saskatchewan, 31.5¢ in Manitoba, 53.2¢ in central Ontario and 56.2¢ in Quebec. This Quebec rate, therefore, over 2,000 miles from the Alberta



field, is 26.8¢ lower than the proposed rate at Prince George.

The 83¢ wholesale rate at Prince George is so highly discriminatory that it exceeds the average retail rate per Mcf (based on 20 Mcf per month consumption) paid by residential consumers under any of the 21 different retail rate schedules now in force in Alberta or Saskatchewan.

In Bellingham, Washington, the American consumer pays an average of 98¢ per Mcf for 20 Mcf per month. In Pendleton, Oregon, he pays \$1.00 on the same consumption. In the B.C. interior the Canadian consumer pays an average of \$1.22 per Mcf for 20 Mcf per month.



Representations Before the Board of Transport Commissioners: When Westcoast, in June, 1955, secured its Federal permit to build its main transmission line, the Chairman of the Board of Transport Commissioners asked, "I just want to know whether on a broad basis whether the Canadian consumer was going to get gas at the same price, approximately, anyway, as the American consumer". Charles R. Hetherington, for Westcoast, replied: "Yes, they will get it at the same price or lower."

Further, in the same hearing, it was represented by Westcoast that an individual community like Prince George would secure gas on better terms, by reason of load factor, by buying through Inland rather than direct from Westcoast. The fact is that Prince George, with an estimated load factor of 31.2% -- and that is the load factor as estimated by Inland -- would pay Westcoast 54¢ on the \$3.21 and 20¢ rate as compared to a price of 83¢ on the Inland rate at the same load factor.

Legal Basis for Remedial Action: In summary, Westcoast can be said to have used the monopoly position it enjoys by virtue of the authority granted to it by the Board of Transport Commissioners for Canada to construct its pipeline and the licence granted to it by the Government of Canada to export gas as an instrument to extort inflated prices from Prince George consumers and to force Prince George consumers to



conform to its dictates. In particular, through the artificial interposition of an affiliated distribution company, Inland, it seeks to frustrate and circumvent the protection which Parliament clearly intended should be given to Canadian consumers of natural gas..

The following regulations, under the Exportation of Power and Fluids and the Importation of Gas Act, are designed to protect Canadian gas consumers from discrimination and inequitable treatment:

(a) Regulation 9 of "Regulations respecting the exportation of power and fluids and the importation of gas" reads as follows:

Export Price.

The price charged by a licensee for power or gas exported by him shall not be lower than the price at which power or gas, respectively, is supplied by him or his supplier in similar quantities and under similar conditions of sale for consumption in Canada".

(b) Condition 2 (c) of The License to Export Natural Gas granted to Westcoast Transmission, dated January 27th, 1955 and issued pursuant to Order-in-Council P.C.1955-958 dated June 23rd, 1955, reads as follows:

2. The licensee shall



(c) agree to supply gas to any Canadian consumer without impairment to any existing service, provided that such Canadian consumer can be reasonably and economically supplied."

That is obviously the case in Prince George, because if they did not supply, they are selling the gas to Inland, which it will supply.

"...If any such application for service to any Canadian consumer is declined by the licensee, it shall forthwith advise the Canadian Government".

The Exportation of Power and Fluids and the Importation of Gas Act S.C. 1958, c.14, s.3(3) provides for the revocation of an Export licence as follows:

"3(3). A licence granted under this section may be revoked if the Governor in Council is satisfied that

- (a) the licensee has refused or neglected to comply with any of the terms or conditions of the licence,
- (b) notice of such refusal or neglect has been sent to the licensee, and
- (c) the licensee has, after receiving such notice, refused or neglected to comply with any such term or condition".

Section 51 of the Pipe Lines Act, R.S.C. 1952, c.211, is intended to ensure that the main



transmission companies deal fairly with Canadian consumers. It reads as follows:

"Where the Board finds such action necessary or desirable in the public interest, it may direct a company to extend or improve its transportation facilities to provide facilities for the junction of its company line with any pipe line of, and sell gas to, any person or municipality engaged or legally authorized to engage in the local distribution of gas to the public, and for such purposes to construct branch lines to communities immediately adjacent to its company pipe line, if the Board finds that no undue burden will be placed upon the company thereby, but the Board has no power to compel a company to sell gas to additional customers if to do so would impair its ability to render adequate service to its existing customers".

It is submitted that the present regulations enacted under the Exportation of Power and Fluids and the Importation of Gas Act, empower the Government of Canada to revoke the Export licence presently held by Westcoast Transmission because of its discrimination against Canadian consumers of gas located in the City of Prince George. It is further submitted that the policy and intent of the present regulations should be affirmed and reinforced



by the specific findings of this Commission, and,
in particular:

(1) That all regulations enacted and the conditions of all licences granted under the authority of the Exportation of Power and Fluids and the Importation of Gas Act be invoked and, if necessary, clarified to prevent evasion by the interposition of regional or wholesale distributing companies or by any other means;

(2) That the said regulations make it clear that the intended beneficiaries of the protection afforded by the regulations are local distributing companies and the actual consumers of natural gas;

(3) That main line transmission companies be prohibited from directly or indirectly selling gas under conditions or through other companies in a way which will contravene the intention of providing gas for Canadian consumers at a price comparable to that charged to American consumers;

(4) That Section 51 of the Pipe Lines Act be amended to provide specifically that the prices charged to companies applying for relief thereunder be non-discriminatory and that the failure of a main transmission company to offer gas at non-discriminatory prices be added as



a ground for invoking the section.

CONCLUSION: In conclusion, it is respectfully submitted that the issue over natural gas which has arisen in Prince George, while relatively of very modest proportions in terms of volumes of gas and sums of money involved, is nevertheless of wide significance. Prince George is the distributing, administrative, banking, commercial and transportation center of a large and developing area in Northern Canada. In performing its important economic function, Prince George has to surmount the handicap of a severe climate as well as the high cost of necessities due largely to transportation charges. (Food, for example, is 20% higher in Prince George than in Vancouver). Peace River natural gas, supplied at an equitable price, provides a means of redressing to some extent this unfavourable cost balance. Instead, it transpires that by artificial, unwarranted and unnecessary discrimination, Prince George is asked to pay more than double the export price and not far from double the price at which a supply of Peace River gas is available to a U.S. community using half the volume. Acceptance of this situation, would, it is submitted, be acceptance of the misdirection of Canadian resources, acceptance of the kind of economic distortion which causes sharp apprehension in this country. In short, it is a situation which cannot be accepted



and calls for rectification without delay.

THE CHAIRMAN: Thank you very much.

MR. T.G. NORRIS: Mr. Chairman, may I be heard, for one moment? I suggest to you that all these matters were before the Court of Appeal of this Province, the arguments were before that Court and were dealt with by the Court of Appeal and were referred to in their judgments. The formal judgment has not yet been settled, but the arguments have been referred to and dealt with and, as I read the judgments, dealt with against my learned friend's submissions this morning.

Now, I propose to file with you copies of the judgments and a copy of the factum submitted by my learned friend on this argument before the Court of Appeal, to indicate to you, Mr. Chairman, that these matters are the very matters which have been before the Court of Appeal and may go further.

It is true that in respect of the condition there was some argument -- the arguments which my learned friend puts forward are dealt with specifically by the judgments of the Court of Appeal of this Province.

THE CHAIRMAN: Thank you very much, Mr. Norris, but I see no reason why anyone who wishes to submit a brief, even though one could go and read it in the reported judgments of the Court, should not be permitted to do so.



MR. NORRIS: I am not objecting. I am just pointing out that it should be remembered, and my submission, of course, is that this is an effort to have the appeal before you from the Court of Appeal of this Province. That is what it is.

THE CHAIRMAN: Well, we are highly flattered.

MR. NORRIS: I would like to file with you, if I may, the judgments of the Court of Appeal. You may find that interesting.

THE CHAIRMAN: Thank you, sir.

MR. TUPPER: Mr. Chairman, I don't know whether it is necessary to say anything in reply to my learned friend ---

THE CHAIRMAN: I do not think so, Mr. Tupper. I think we understand the situation.

MR. TUPPER: I would like to read in a short statement on behalf of the Eagle Lake Sawmills---

THE CHAIRMAN: I think, perhaps, if you would postpone it, Mr. Tupper, would you?

MR. TUPPER: Yes.

THE CHAIRMAN: Mr. Pattillo?

MR. PATTILLO: I would like to endeavour to get on the record, in chronological form, the facts that may be relevant to the terms of reference of this Commission. First, when was Prince George Gas Company Limited incorporated?

MR. WRIGHT: In 1952 it was incorporated, as a private company, I think, and in 1954 or 1955



it was incorporated as a public company.

MR. PATTILLO: Is it incorporated under the laws of the Province of British Columbia or under the laws of the Dominion?

MR. WRIGHT: Under the laws of the Province of British Columbia.

MR. PATTILLO: Have shares of the company been issued to the public?

MR. WRIGHT: Yes.

MR. PATTILLO: Was there a public issue?

MR. WRIGHT: Well, I think Mr. Tupper is more familiar with that aspect. Maybe I should withdraw my remark.

MR. TUPPER: I should explain, Mr. Chairman, that there have been subscriptions to shares accepted and, under the terms of the company's prospectus, those subscriptions are held in trust and there are no shares issued to the public until a certificate of public convenience has been granted and our franchise is conditional upon the granting of a franchise by the Public Utilities Commission. Now, there have been some shares issued to the syndicate.

MR. PATTILLO: On what date did the company receive a franchise from the City of Prince George?

MR. WRIGHT: March, 1956; March 14, 1956.

MR. PATTILLO: When did it first approach Westcoast Transmission Company for the right to buy



the gas directly from that company?

MR. WRIGHT: Mr. Chairman, in answering that question and dealing with it, in detail, I think a simple point here which would be of interest to you, I think, Mr. Chairman, is that the company was incorporated and sought its franchise and had the intention of buying gas from Westcoast before Westcoast and Inland entered into the contract.

MR. PATTILLO: If you would just let me ask the questions.

MR. WRIGHT: I'm sorry.

MR. TUPPER: If I might answer that question, the position was taken by the Prince George Gas Company that at the time of the application, before the Public Utilities Commission would accept a statement made by Mr. D.P. McDonald at a hearing before the Public Utilities Commission in a matter between the B.C. Electric Company and the Valley Natural Gas Distributing Company, that Westcoast would supply gas to any utility in British Columbia when it receives a certificate from the Public Utilities Commission and would supply it on non-discriminatory terms. Before applying to Westcoast, we sought to obtain our certification. We were aware of this exclusive contract with Inland and we felt, in accordance with Mr. McDonald's statement, it would be necessary, before we could induce Westcoast to supply us, that we would have to be certificated.



MR. PATTILLO: Now, that is not what I asked at all. When was the first time that you asked Westcoast Transmission to supply gas to the Prince George Gas Company Limited?

MR. WRIGHT: The dates are in the letter which we submitted with the brief. We can look them up for you, Mr. Pattillo.

MR. TUPPER: September 26, 1957.

MR. PATTILLO: That is Exhibit 6, attached to your brief; that is the first time on which you made the request?

MR. TUPPER: That was the first time a formal application was made.

MR. PATTILLO: And it was contained in that letter which is Exhibit 6, is that it?

MR. TUPPER: That is correct.

MR. PATTILLO: When did the Westcoast Transmission, if at any time, first refuse to supply gas directly to the Prince George Gas Company?

MR. WRIGHT: On the hearings before the Public Utilities Commission in the Spring of 1956. That is in the appeal books. They indicated, as Dr. Angus said in his judgment, that they were unwilling to supply gas to the Prince George Gas Company.

MR. PATTILLO: That was sometime before you made the formal demand contained in Exhibit 6?

MR. TUPPER: That is correct, sir; but I think it may be perhaps wrongly construed that we were



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making a demand on Westcoast by applying to the Public Utilities for a certificate to enable us to buy gas when we first went before the Commission in the Spring of 1956.



MR. PATTILLO: Well, has Westcoast, since your formal demand of September 26, 1957, ever formally refused?

MR. WRIGHT: Yes, sir.

MR. PATTILLO: To sell gas direct to Prince George Gas Co.?

MR. WRIGHT: Yes.

MR. PATTILLO: When?

MR. WRIGHT: In a letter dated October 9, 1957, which is also filed with our submission.

MR. PATTILLO: That is Exhibit 7.

MR. WRIGHT: Yes.

MR. PATTILLO: Is that the formal refusal to which you refer?

MR. WRIGHT: I just can't at the moment put my finger on the exhibit here, but it is a letter dated October 9th. I am subject to correction. Yes, it is Exhibit 7.

MR. PATTILLO: That is the formal refusal to which you refer?

MR. WRIGHT: That is correct.

MR. PATTILLO: Now, since October 9, 1957, has there been any change in the position of Westcoast Transmission as to whether it would or would not supply directly to Prince George Gas Co.?

MR. WRIGHT: No change whatsoever so far as we are aware.

MR. PATTILLO: Since the receipt of this



letter, Exhibit 7, dated October 9, 1957, has Prince George Gas Co. Ltd. had any further correspondence with Westcoast Transmission?

MR. WRIGHT: The Prince George Gas Co. has, to the best of my knowledge and belief, had no further correspondence whatsoever with Westcoast since the date of that letter -- except that there is a series of exchanges which was filed as exhibits.

MR. PATTILLO: Now, we have a letter from Prince George Gas Co. dated October 25, 1957, signed by yourself as the executive vice-president and a letter in reply dated November 14, 1957, signed by Mr. Frank McMahon as president of Westcoast Transmission. Now, are those the only additional correspondence that you had?

MR. WRIGHT: Yes, that is correct, sir.

MR. PATTILLO: Now, when you refer to this price of 83 cents, is that at the take-off point of the Westcoast line or is that after delivery of this $4\frac{1}{2}$ miles to the City of Prince George?

MR. WRIGHT: After delivery of the $4\frac{1}{2}$ miles.

MR. PATTILLO: And this other price that you talk about of fifty some cents, is that at the take-off point or is that at the delivery?

MR. WRIGHT: That would be at the take-off point.

MR. PATTILLO: That is the take-off?

MR. WRIGHT: Yes.



MR. PATTILLO: Now, Inland has built a pipeline from the Westcoast transmission line to the City of Prince George.

MR. WRIGHT: Yes. Under a certificate granted by the Public Utilities Commission they were granted the right to build that line. We applied to have that right, and it was denied, and we appealed it to the Lieutenant-Governor of the Province of B. C. Subsequently our appeal was dismissed but with certain qualifications: they allowed Inland to build the line, but if the City of Prince George were able to obtain a supply from Westcoast that we would have an option to buy that stub line if they saw fit to give it to us.

MR. PATTILLO: When was this $4\frac{1}{2}$ mile line built?

MR. WRIGHT: Within the last few months. I am afraid I don't know the exact date. It is in operation now.

MR. PATTILLO: It is in operation?

MR. WRIGHT: Yes, because they supply the B. C. Power Commission which is on the left bank of the Fraser River.

MR. PATTILLO: The $4\frac{1}{2}$ mile line, then, which is needed to get to the City of Prince George is also a means of supply to the B. C. Power Commission?

MR. WRIGHT: Yes. The line itself doesn't go into the City, it just goes to the Power Commission now.



MR. PATTILLO: I want to find out what additional facilities there would have to be to get it into the City.

MR. WRIGHT: Just a river crossing across the Fraser River.

MR. PATTILLO: Have you any personal knowledge of how much it costs to construct that line?

MR. WRIGHT: The $4\frac{1}{2}$ mile line?

MR. PATTILLO: Yes?

MR. WRIGHT: It is in the order of \$100,000 or more, maybe \$120,000.

MR. PATTILLO: You don't know?

MR. WRIGHT: We have an engineering estimate. I haven't got it in my head right now.

MR. PATTILLO: In any event, you don't know what, in fact, it did cost?

MR. WRIGHT: I don't know what it cost Inland, no.

MR. PATTILLO: Now, looking at page 8 of your brief, has Westcoast at any time taken the position that the supply of gas to Prince George Gas Co. would in any way impair its existing service?

MR. WRIGHT: No, certainly not to my knowledge.

MR. PATTILLO: When you had this correspondence in the fall of 1957 with Westcoast Transmission did you subsequently advise the Canadian Government or any Minister in writing as to the correspondence between you and Westcoast?



MR. WRIGHT: That correspondence -- the Canadian Government was advised of that correspondence and copies were offered to the Canadian Government on an official level.

MR. PATTILLO: Just tell me when and to whom and how.

MR. WRIGHT: Can I give you an answer to that in writing? I don't know the date in my head.

MR. PATTILLO: All right. Now, has the Prince George Gas Co. made any application at any time before or since this correspondence between Westcoast and itself to the Board of Transport under the provisions of Section 51 of the Pipe Lines Act?

MR. WRIGHT: No such application has been made.

MR. PATTILLO: On page 9 of your brief you have suggested that this Commission should make certain specific findings. Have you given any thought to what those findings in your opinion should be?

MR. WRIGHT: We have taken a general position that the Commission itself is much better qualified than a rather small company like Prince George Gas Co. to determine that kind of a question.

MR. PATTILLO: So the answer is no?

MR. WRIGHT: Yes, the answer is no.

MR. PATTILLO: I think those are all the



questions that I have, Mr. Chairman.

THE CHAIRMAN: Thank you, Mr. Pattillo.

MR. PATTILLO: Mr. Chairman, if the Commission wasn't going to ask any questions, I think perhaps I would like to ask Mr. Norris whether he wishes to challenge any of the facts that I have brought out now in my examination as questions of fact, that is all.

MR. NORRIS: We would like to submit a brief now that we haven't put in because the matter is before the courts. We have a brief that has been held just for that very reason.

THE CHAIRMAN: You mean you have it ready?

MR. NORRIS: I have a witness and I will put him in the box. I would like to do it now.

THE CHAIRMAN: You have no questions to ask Mr. Wright or Mr. Tupper, Mr. Norris, with respect to the facts as brought out by Mr. Pattillo's questioning?

MR. NORRIS: Well, it comes somewhat as a surprise, and I would rather put in the brief.

THE CHAIRMAN: Then I think, Mr. Pattillo unless you have further questions, we will have a ten-minute break.

---A short recess.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing.



Mr. Pattillo.

MR. PATTILLO: Mr. Chairman, I am proposing now, in order that we can deal with everything in a certain order, that we proceed in this fashion: first, I think Mr. Norris is prepared to make a statement for the record as to the questions of fact I was bringing out with Mr. Wright; next, I propose that the submission of the Eagle Lake Sawmills Limited be read into the record because it also concerns Westcoast; and following that, I am proposing that the brief of Westcoast dealing with Prince George which has now been delivered to all of us be dealt with by Mr. Norris and Mr. McDonald and whoever else they desire, and I understand that either when they are dealing with the Prince George matter or immediately following it Westcoast will deal with the Sawmills.

Now, Mr. Norris, would you first make the statement that you are prepared to make.

MR. NORRIS: Mr. Chairman, Westcoast Transmission Limited is prepared to accept the correctness of the statements elicited by Mr. Pattillo on his examination just now subject to some little check which we may have to make after we have got the transcript, and we will put in such representations as we consider necessary by letter covering that.

THE CHAIRMAN: Thank you.



MR. PATTILLO: Now, then, I would like to have the Eagle Lake Sawmills Limited material which is supported by a covering letter dated April 21, 1958, marked as V-23-2, and I will ask Mr. Tupper if he will be kind enough to read this material.

---EXHIBIT NO. V-23-2: Letter dated April 21, 1958, from Eagle Lake Sawmills Limited to The Chairman, Royal Commission on Energy, Victoria, B.C.

MR. TUPPER: Mr. Chairman, this is a statement on behalf of Eagle Lake Sawmills Limited which is situated in the same general area in Prince George, and it is submitted as one more concrete example, as we suggest, of the violation of West-coast under the terms of its export licence. It is a letter dated April 21, 1958, and reads as follows:

"Dear Sir:

" On February 19th, 1958, this Company made
"application to Westcoast Transmission Company
"Limited for a supply of gas for its mill and
"townsite at Giscome, B.C., to be taken from
"the main transmission line at or near Shelley,
"B.C.

" Giscome is an unincorporated village
"comprised of some 80 or 90 dwellings, a large
"boarding house, three churches, a modern
"school building, a dairy farm of over 175
"milking cows, etc. The present estimated



"requirements of natural gas are approximately
"30,000,000 cubic feet per year.

" The mill has a capacity of some 70,000,000
"feet board measure per annum and is, we believe,
"the largest spruce mill in North America.

" For some years the mill has used substantial
"quantities of fuel and diesel oil, being at
"times short of sufficient waste to stoke the
"boilers.

" For the past six years or more we have been
"studying various processes for the utilization
"of wood waste and it seems that in the not
"far distant future we will be prepared to embark
"on the construction of a plant for such purpose.
"This will result in a permanent shortage of
"wood waste for boiler fuel. Therefore, the
"assurance of a reasonably priced supply of
"gas is important to us before we spend further
"large sums on this development.

" We have been unable to obtain any satisfactory
"response from Westcoast Transmission Company
"Limited and finally after a delay of some six
"weeks we were referred to Inland Natural Gas Co.
"Ltd."

I might say that the correspondence passing
between Eagle Lake and Westcoast and Eagle Lake and
Inland Natural Gas we attached to the submission.
I won't take up the Commission's time in reading them.



" It is, we believe, in order for us to point
"out that the actions of Westcoast Transmission
"Company Limited in this matter are obvious
"attempts to avoid the provisions of its
"export licence.

" Finally, we should point out to you
"that our Company is not a public utility and
"is not subject to the jurisdiction of the
"Public Utilities Commission of the Province
"of British Columbia."

I might explain that under the Public
Utilities Commission Act it excludes a person who
purchases gas for their own use and for use of their
tenants and employees.

" We attach hereto copies of our correspondence
"with Westcoast Transmission Company Limited and
"also an exchange of letters with Inland Natural
"Gas Co. Ltd.

"Yours faithfully,
"EAGLE LAKE SAWMILLS LIMITED
"Per: 'W. B. Milner'
W. B. MILNER, PRESIDENT. "

THE CHAIRMAN: Is there any reason for your
distinguishing between the correspondence between
Westcoast and Eagle Lake and Inland Natural Gas?

MR. TUPPER: Nothing at all.

THE CHAIRMAN: Nothing significant?

MR. TUPPER: No.



MR. PATTILLO: I do not know there need be any questions directed to your submission. I think it speaks for itself.

I therefore suggest we now mark the brief submitted by Westcoast as V-23-3.

---EXHIBIT NO. V-23-3: Submission of Westcoast
Transmission Company
Limited.

THE CHAIRMAN: All right, Mr. Norris?

MR. NORRIS: I understand, Mr. Chairman, Mr. McDonald has been already sworn and qualified.

MR. PATTILLO: That is correct. Our practice, Mr. Norris, has not been to swear the person in submitting something. We are going to swear them after the submission, if we intend to examine them.

MR. NORRIS: I understand Mr. McDonald has been sworn.

MR. PATTILLO: Yes.

MR. NORRIS: And qualified?

MR. PATTILLO: Yes.

MR. NORRIS: Mr. McDonald has a brief to submit and which is submitted subject to the qualifications I have already made that these matters are before the Courts and will be dealt with, and is the subject matter of the brief which Mr. Tupper submitted and said was before the Courts and it will be dealt with there.



Submission of

WESTCOAST TRANSMISSION COMPANY LIMITED

APPEARANCES:

Frank M. McMahon	- President
C.R. Hetherington	- Vice-President
D.P. McDonald	- Managing Director
T.G. Norris, Q.C.	- Counsel

MR. McDONALD: May it please the Commission, this is material which is factual and was prepared sometime ago having in mind that the information might come before the Board in reply to any matters that might be raised in regard to the Prince George situation.

The matter of gas service to the City of Prince George has a long and complicated history and has been fully dealt with by the Public Utility Commission of the Province of British Columbia, who have jurisdiction over the local distribution of gas in the Province of British Columbia. The officers of Westcoast, however, have deemed it advisable to place before the Commission the facts concerning the above matter insofar as they are the basis for the rejection by Westcoast of the application by Prince George



Gas Co. Ltd. to purchase gas from Westcoast at the proposed main line connection above mentioned.

Natural Gas Service to Prince George: The only sizeable community in British Columbia which has not been served with natural gas as of November, 1957, is the City of Prince George.

Under the Inland Gas Sales Agreement between Westcoast and Inland Natural Gas Co. Ltd., Inland undertook, as part of its service to communities in British Columbia, to construct a service pipeline from the Westcoast main line to the city gate of Prince George, serve the British Columbia Power Commission facilities at Prince George and build and operate a gas distribution system in the City of Prince George. Subsequent to Westcoast entering into the contract with Inland providing for such service, Prince George Gas Co. Ltd. determined to make application to the Public Utility Commission of British Columbia for a franchise to build a gas distribution system in Prince George. Upon Inland applying to the Public Utility Commission for a Certificate of Convenience and Necessity authorizing it to construct the facilities to serve Prince George including the distribution system within the city limits, Prince George Gas Co. Ltd. intervened in opposition and made an application to construct and operate such service.

Upon hearing of the application the Board



of Public Utility Commissioners of British Columbia granted a Certificate of Convenience and Necessity to Inland to construct the pipeline from the point of connection at the Westcoast main line to the city gate of Prince George and serve en route the Power Plant of the British Columbia Power Commission. At the city gate Inland was directed to provide gas service to Prince George Gas Co. Ltd. to which the Board was prepared to grant a Certificate of Convenience and Necessity authorizing the construction of the distribution facilities within the city. The Order of the Public Utility Commissioners directed that if Inland and the Prince George Gas Co. Ltd. could not agree upon the rate to be charged by Inland for gas to be delivered by it to Prince George, that application could be made to the Board to determine the rate to be charged.

In their Reasons for Decision, dated May 23, 1956, the Public Utility Commissioners considered the application of the Prince George Co. Ltd. and Inland Natural Gas Co. Ltd. and the evidence heard on April 10, 11, 12, 25, 26 and 27, 1956.

Public Utilities Commission Decision: The main question before the Commission was whether it was in the public interest -- and I mean by public interest the interest of the Province of British Columbia and the people who reside in it -- to have two separate undertakings, one for Prince George



alone, and the other for the Inland Natural Gas Co. Ltd. project less Prince George.

The Commissioners stated in part:

"The Public Utilities Commission has come to the conclusion that to exclude the City of Prince George and the surrounding area from the project of Inland could be a serious blow to Inland. A major part of the heavy capital investment required for the execution of Inland's proposals is needed for the construction of the subsidiary transmission line to serve the Okanagan and the Kootenays, part of which line was essential to its agreement with Westcoast, and, therefore, to Westcoast's enterprise. Unless this commitment enables Inland to obtain gas on favourable terms for a more economical supply to consumers elsewhere the company might conceivably find it difficult to proceed with its subsidiary pipeline project as the cost of gas to consumers on the subsidiary transmission line might then have to be so high as to make gas an ineffective competitor with other fuels."

The conclusion of the Commissioners is stated as follows:--

"For the foregoing reasons the Public Utilities Commission concludes that only two courses are open to it. The first is to grant the



application of Inland and to dismiss the application of Prince George Gas. The second is, subject to appropriate conditions in each case, to grant the application of Prince George Gas and to grant the application of Inland with an exception for Prince George. The Public Utilities Commission favours the second of these two courses.

"In the case of Prince George Gas, the first condition would be that it must secure a supply of gas from Inland on terms acceptable to the Public Utilities Commission, including provision for point of delivery and price. There would be a time limit of 60 days for this. The price would have to be adequate to ensure that, in the initial years at least, a contribution will be made by consumers in Prince George to the overall costs of that part of the Inland system but for the creation of which they might never have been in a position to receive gas at all. The arrangements would have to ensure that Inland will be enabled to supply an adequate quantity of interruptible gas to the B.C. Power Commission without duplication of the stub line at Prince George.

Gas Costs Equivalent: Following the conclusions above reached, Inland submitted to the Prince



George Gas Company its proposal that gas be made available by Inland at the city gate of Prince George at the price of \$5.00 per Mcf of monthly demand, 30¢ per Mcf commodity and 30¢ per Mcf interruptible, which price would enable the Prince George Gas Company to supply gas to its consumers at costs equivalent to the cost of gas to consumers served by Inland in other British Columbia communities such as Kamloops, Penticton, Trail, etc. At the same time, Inland would carry out its undertaking to serve the British Columbia Power Commission, with gas for its plant at Prince George, which the British Columbia Power Commission urgently require as part of its program to obtain gas for all of its plants in the area served by Inland in Central British Columbia.

The proposal made to the Prince George Gas Co. Ltd. was not accepted and in accordance with the Certificate granted to Inland, it then applied to the Public Utility Commissioners to arbitrate and determine the price that should be charged in Prince George. After a hearing, the Commissioners directed that for the first year of operation, the proposed rate should be charged by Inland and that at the expiration of the year the question of the rates would be further considered by the Board.

It was clear from the evidence submitted



to the Commission at this hearing that the proposed rate of Inland made it possible on the estimate of market and costs of the Prince George Company that it would be able to sell gas to consumers in Prince George at rates no higher than the rates which Inland would be compelled to charge for the other consuming areas which it was serving, such as, Quesnel, Kamloops and Penticton. It was apparent that, as stated in their original decision, the Commissioners felt that their determination of the application made it possible for the Prince George Gas Co. immediately to finance its project, get into business, and then at the expiration of the first year's operation the Commission would be in a position to deal with any inequities which may become evident as between the service of gas to Prince George and other communities in British Columbia.

Instead of proceeding as directed by the Public Utility Commissioners, the Prince George Company has appealed to the Court of Appeals and also appealed under the terms of the Public Utilities Act to the Lieutenant Governor in Council for a reversal of the Order of the Commission.

The appeal has been heard by the Court of Appeals and now stands over for judgment -- as Mr. Tupper stated, has not yet been formally given. I would, of course, like to file the Reasons for Judgment.



THE CHAIRMAN: The Reasons have not been given.

MR. NORRIS: The Reasons have been given but formal judgment has not been sent down.

MR. McDONALD: The decision of the Lieutenant Governor in Council is set out in the Minute approved on November 14, 1957, which states in part --

There were two appeals in each instance for the City of Prince George and Prince George Gas Company. --

AND TO RECOMMEND THAT the said appeals be and the same are, upon approval of this Minute, dismissed, provided that, in order to avoid duplication of pipelines, the said Certificate dated August 10th, 1956, shall not become effective until Inland Natural Gas Company Limited shall have given an undertaking to the Public Utilities Commission in the following terms:

"Inland Natural Gas Company Limited hereby undertakes to the Public Utilities Commission that, on request by the Public Utilities Commission, it will grant an option good for two years, or such longer period as the Commission may require, to Prince George Gas Company Limited to purchase the stub line at Prince George serving the British Columbia Power Commission if and when Prince George Gas Company Limited becomes entitled to supply natural gas in the



City of Prince George and vicinity and to procure its supply of gas from the Westcoast Transmission Company Limited. The price will be such as to indemnify Inland Natural Gas Company Limited for its expenditure and the option will be conditional on the transmission of gas free of charge for Inland Natural Gas Company Limited to the British Columbia Power Commission. Inland Natural Gas Company Limited undertakes further that should the City of Prince George become entitled to supply natural gas in the City and in the vicinity of the City and to procure its supply of gas from Westcoast Transmission Company Limited, Inland Natural Gas Company Limited will, if required to do so by the Public Utilities Commission, grant an option on similar terms to the City."

Position of Westcoast: The position of Westcoast in this matter simply is that for the purpose of establishing its financial responsibility before the Alberta Conservation Board, the Board of Transport Commissioners for Canada, the Federal Power Commission of the United States, and the Insurance Companies and other investors in senior securities of Westcoast as required in order to obtain the funds with which the project could be built, Westcoast entered into a contract with Inland in 1952 under which Inland undertook to serve every community which



it was possible for it to serve in British Columbia with gas.

The Inland Company has diligently and faithfully performed its undertaking to Westcoast and every representation which it has made to the authorities above mentioned, and has made natural gas service available to every community in the interior of British Columbia of reasonable size excepting the East Kootenays area comprising the towns of Cranbrook, Kimberley and Fernie.

In determining its position with regard to this controversy Westcoast had to take into account the effect on Inland of Westcoast abrogating its contract with Inland to the extent of deleting therefrom the volumes of gas deliverable to Prince George. The volume of gas which Prince George will consume is a very significant volume in respect to the overall load factor of the Inland system, and would affect materially the price of gas in each of the other communities served and would materially reduce the volume of interruptible gas available to the British Columbia Power Commission at the minimum rate throughout central British Columbia under its contract with Inland and thereby in turn increase the cost of electricity in the area served.

Gas is sold in British Columbia at each of five power stations in the interior of British Columbia and is 22¢ per Mcf. In other words, Inland



purchases the gas at 20¢ and delivers it at 22¢ at five different stations.

THE CHAIRMAN: That is interruptible?

MR. McDONALD: That is interruptible;
all of the engines are gas-oil convertible engines.



Reference is made to the correspondence which has ensued between Westcoast and the Prince George Gas Co. Ltd. attached hereto. This sets forth in detail each of the relevant decisions and Orders of the Public Utility Commission of British Columbia and the Lieutenant Governor in Council.

The exhibits, each of the orders plus the Order-in-Council are set out in the exhibits. However, I think I should refer, as I have in this brief, to the evidence which was given by Mr. Hetherington before the Public Utility Commission.

In giving evidence before the Public Utility Commission in April 1956, C.R. Hetherington, a Vice-President of Westcoast, stated:

"I have been asked by the officials of Inland Natural Gas Co. Ltd. to advise you of the policy of Westcoast with reference to the sales of gas by it for distribution in the communities in the interior of British Columbia."

It must be observed that Inland was applying to the Public Utility Commission to serve somewhere in the neighbourhood of 21 communities, involving expenditures of somewhere in the neighbourhood of \$26 million. The application of Prince George was purely incidental only in that it was part of the service to the entire interior of British Columbia.

"In 1952 Inland agreed with Westcoast to construct the necessary facilities and distribute



gas in all communities in the interior of British Columbia which could be economically served. Inland made the necessary market and engineering studies and satisfied West-coast, the Board of Transport Commissioners of Canada, and the Federal Power Commission of the United States that it could carry out its undertaking and sell the volumes of gas which they have estimated will be required by the said communities in the interior. It was essential in 1952 and increasingly essential to Westcoast now as a commitment to investors in its securities that a strong capable company have the responsibility of serving the market for gas in the interior of British Columbia. By agreement dated the 2nd day of February, 1955, as amended, Westcoast agreed to sell and Inland agreed to purchase on a take or pay basis the daily volumes of gas required to serve Prince George, Quesnel, Williams Lake, and Savona (for service to Kamloops, North Kamloops, Vernon, Kelowna, Penticton, and small communities en route) and Merritt, subject to a minimum daily demand charge on 15,000 Mcf of gas per day in the year ending November 1, 1959, and 18,500 Mcf of gas per day in the year ending November 1, 1960, and each year thereafter for a total period of 20



years. As stated above, this firm obligation on the part of Inland is a requirement for the financing by Westcoast of the 152 million dollar project."

This firm obligation, together with the British Columbia Electric firm obligation, together with the Pacific Northwest contract provides the three contracts on which the financing was based.

"The rate to be charged by Westcoast under the terms of the agreement is a demand charge of \$3.21 per Mcf per month, a commodity charge of 20¢ per Mcf on all gas actually delivered, subject to the limitation up to November 1, 1958, that the combined total of the above charges will not exceed 47¢ per Mcf, and an interruptible charge of 22¢ per Mcf."

Those rates are identical with the British Columbia Electric rate. They are identical with the tariff rates of Pacific Northwest, except with one particular omission which was referred to by Mr. Wright this morning in his brief, and that was the minimum rate of 45¢ per Mcf to small communities. I do not have the rate before me but my recollection is that there are a number of small communities in the States of Oregon, Washington and Idaho who do take advantage of that rate. It has not been published by us because we have not had any application of it since British Columbia has taken a good many thousand



million Mcf a day, similarly, Inland, and there has been no published rate and we have never given consideration to that particular phase.

"Further, in order to assure Inland of adequate gas supplies in the future, Westcoast in its agreement is firmly committed to supply in the first instance up to 32,000 Mcf of gas per day subject to the proviso that this amount may be increased by Inland up to an additional 16,000 Mcf per day, with the result that Inland has an assured gas supply under contract of 48,000 Mcf per day."

I might just say this: since this evidence was given by Mr. Hetherington, Inland was able to complete its negotiations to finance the extension of its pipeline from Penticton to Nelson, British Columbia, what is called the West Kootenay service area, and with the gas provided by this additional contract, Westcoast's obligation to Inland is 68 million cubic feet per day. That transpired subsequent to this application to the Board of Public Utility Commission, and I might modify that this application was for the service of Inland to Penticton and the subsequent one was the one that brought in the additional cities.

"In addition, Inland has the right to obtain further supplies if required by its customers in priority to any increase in sales to United



States consumers.

"This agreement is an exclusive contract in favor of Inland. In making this exclusive contract, the officials of Westcoast were mindful of the work done by Inland since 1952, its financial resources as an integrated gas producing and distributing company, and more important, that the combined service to all the towns mentioned will enable Inland to serve the whole interior area at a uniform price and sell large interruptible industrial volumes, particularly to the British Columbia Power Commission at favorable rates. In order to assist Inland in providing the widest possible service in the initial years of operation at a reasonable uniform price throughout the interior, Westcoast amended its contract and agreed to contribute \$500,000 per year for 3 1/2 years toward the cost of operation of the Inland transmission system."

It was obvious, from working out the economics as to the Inland system, that the revenue which could be obtained in the first 3 1/2 years was not sufficient to carry the company, so Westcoast has provided \$500,000, a total of \$1,750,000 for that period of 3 1/2 years, by which time Inland's markets will have developed to the point where they can carry the market facilities.



"At the expiration of this period this contribution will not be required by Inland because of the increased volumes then being transmitted by it and the monies will be applied by Westcoast in meeting the increased cost of gas required to be paid to the producers under the acceleration provisions of the producers gas supply contracts. No other company, either now organized or proposed, has approached Westcoast up to the date hereof with respect to purchasing gas for any of the towns mentioned. Obviously Westcoast cannot contract for the sale of gas to any other purchaser as long as Inland carries out the terms of its contract and serves or offers to serve at reasonable rates all consumers of gas, large or small, in its market areas defined in the agreement. I would point out further that the rate fixed by Westcoast in the Inland agreement which is the same as that fixed for service to the B.C. Electric area is not a flat price per Mcf. It is a demand commodity rate based on the sale of large volumes and designed to secure the revenue required by Westcoast to finance and maintain its pipeline operations. It is certain that any sales to purchasers who are only able to buy lesser volumes will be made by Westcoast at an increased rate. Westcoast



is proceeding with its financing and construction program on the basis of its firm exclusive agreement with Inland which Westcoast firmly believes Inland will carry out in every particular."

I might mention, Mr. Chairman, with regard to the West Kootenay extension of the Inland system, that in order to make that extension financible, Westcoast agreed to accept, for gas delivered by Inland for that portion of the system, a reduction in demand rate, I believe, of \$1.15, which will be a continuing contribution by Westcoast for the full term of 20 years. It will not be a termination at the end of 3 1/2 years as the \$500,000 is.

One purpose of the Inland extension is that it got gas into the important industrial areas of the West Kootenays in British Columbia, which includes the large plant of the Consolidated Mining and Smelting Company and the prospective plants of the Cellulose Company and others in those areas, particularly important because of the great surplus of electricity in that area in the Kootenays.

Now, Mr. Chairman, the balance of the exhibits cover the judgments of the Utility Commission and the Orders of the Council and then the correspondence to which Mr. Wright referred this morning, and those exhibits very likely duplicate these exhibits.



We first received an application from Prince George Gas Company Limited on September 26, 1957. We replied to that request on October 9, 1957, and I might state the reply outlines what we have stated here, that the Public Utility Commission is dealing with the matter and with respect to the licence, the term of the licence to which Mr. Wright referred this morning. Part of that letter of October 9, 1957 reads as follows:

"...I would point out that the obligation of the Company is to agree to supply gas to any Canadian consumer who can be reasonably and economically supplied. This obligation has been fully met by the Agreement between this Company and Inland, and Inland's obligation to sell the gas supplied by this Company to consumers in the Prince George area through such agency as is authorized from time to time by appropriate action on the part of the Public Utilities Commission of the Province of British Columbia.

"It appears to me that this Company having made provision for a gas supply as required by its Licence, the distribution of the gas so supplied among consumers in British Columbia is a matter wholly within the jurisdiction of the Provincial authorities."

That was signed by Mr. McMahon, and there is a subsequent letter in which there is a reiteration



of the arguments set out and then a further statement by Mr. McMahon that he could not see a useful purpose being served by further correspondence.

On the 15th day of October, 1957 I wrote to The Honourable Gordon Churchill, Minister of Trade and Commerce, Department of Trade and Commerce, Ottawa, Ontario, as follows:

"Dear Mr. Churchill:

"On behalf of Mr. Frank McMahon, President of the Westcoast Transmission Company Limited, I enclose herewith a copy of his reply to a request from Prince George Gas Co. Ltd. for a supply of gas to be purchased directly from this Company for distribution in the City of Prince George.

"The Prince George Gas Co. Ltd. suggests in its letter of application to this Company, that failure to provide service as requested would be a default on the part of this Company under the terms of its Licence from the Department of Trade and Commerce to export natural gas to the United States.

"You will note that in Mr. McMahon's reply he deals with the above suggestion. The fact is that the gas from this Company is available at the City boundary of Prince George. The Prince George Gas Co. Ltd. now holds a Certificate of Public Convenience and Necessity



to distribute gas in the City of Prince George if it desires to implement the same. The Inland Gas Co. Ltd. holds a Certificate of Public Convenience and Necessity to construct, and has constructed and made available gas to the Prince George Gas Co. Ltd. at the City boundary. The matter of dispute appears to be the question of price as between the two British Columbia Utility Companies, which appears to this Company to be a matter wholly within the jurisdiction of the Provincial Authorities and is now specifically before the Public Utilities Commission of the Province.

Yours very truly,"

signed by myself.

THE CHAIRMAN: Have you had any reply to that letter?

MR. McDONALD: No, sir. The letter was written, sir, in compliance with the terms of the licence and, since this was a refusal to supply, the terms require that notice be given to the Minister.

I might refer to one item under Tab 11 in the statement. One of the conditions is that the licensee shall conform to any lawful requirement that the Province of British Columbia may stipulate as to gas produced in the Province of British Columbia. Now, the Public Utilities Act of British Columbia



stipulates that the only companies that can construct and operate gas facilities are those that are certified by the Public Utilities Commission from time to time, so that the only company that Westcoast legally can deal with was the Inland company, could legally deal with then and now, the Inland company, which has the certificate to attach to our line and take gas from us.

I might also, Mr. Chairman, deal with the matter of the Eagle Lake Sawmills Limited application. The correspondence that passed between myself, representing Westcoast, and Mr. W.B. Milner, president of Eagle Lake Sawmills Limited -- and, I believe, Mr. Milner is the moving spirit, as it were, behind Prince George Gas Company Limited, although I do not believe that appears in the record -- upon receipt of this correspondence, this letter, Mr. Chairman, my reaction was -- the letter of February 9th contains a statement of the amount of gas required, and this is the letter between Eagle Lake Sawmills Limited and Westcoast, addressed to Westcoast, dated February 19, 1958.

MR. PATTILLO: That is the last exhibit in the Eagle Lake Sawmills exhibit, V-23-2?

MR. McDONALD: Yes. Upon receipt of that letter I noticed that the amount of gas required for one year was 30 million cubic feet per year. Now, that is less than 100 million cubic feet a day, and



then I looked at the map and found that this is some 14 miles, I believe, from our line. I then thought I should find out what the actual situation was at the camp and I asked our superintendent of pipelines to look into the situation and, pending that report, as I advised Mr. Milner, I waited for that report and then it occurred to me subsequently that this area was within the terms of the contract with Inland Natural Gas, this was part of the area to which they had service right.

I then asked Inland to attend on Mr. Milner and offer the service required in accordance with their undertaking to us.

It is a condition of their contract that they serve every reasonable applicant for gas service within the area which they occupy.

"Gas for use in the territory served by the buyer."

The buyer, in this instance, is Inland. It is in the contract between Inland and Westcoast dated February, 1955, and a copy of this agreement has been filed with the Commission in the consolidated gas sales contracts delivered to the Commission at Calgary in February. Item J, on page 20, uses the term of "seller", and that is Westcoast, in this case.

I advised Inland Natural Gas Company, under date of April 1, 1958:



"I am enclosing the following:--

1. Letter from Eagle Lake Sawmills Limited to this Company requesting natural gas service at its mill site at Giscome, B.C.
2. Copy of our letter to Eagle Lake Sawmills Limited.
3. Copy of Report of our Pipeline Superintendent re proposed service.

In accordance with the terms of Article XI J of the Gas Sales Contract between our respective companies dated February 2nd, 1955 please accept this letter as notice of the name and location of a prospective user of natural gas.

It will be appreciated if you will give immediate consideration to the enclosed application of Eagle Lake Sawmills Limited requesting gas service, and keep this Company advised as to the progress in connection therewith."

The Inland company has been negotiating or has advised Mr. Milner, in accordance with the exhibit as filed, and they made the offer of service. Now, that is where the matter stands at the moment. I have advice from Inland that they have made the offer of service, anyway, a copy of their letter of April 18th.

THE CHAIRMAN: That is filed and also a



copy of Mr. Milner's reply of April 21st.

MR. McDONALD: That is right, sir. I have not, as of this date, written to the Honourable Mr. Churchill, because I was waiting to see if these people had not come to terms. If they do not come to terms, of course, then it is a matter for Westcoast to take into consideration.

There is something, Mr. Chairman, I think I should refer to: there is no mention in the correspondence, nor has anybody mentioned to me nor have anybody in Inland advised me that they have been advised of any reference to a mill having a capacity of 70 million board feet, of any intention to use gas for industrial purposes; and the volume of 30 million cubic feet, that is, the sale of 100 Mcf a day, at an average, to be transported 14 miles -- the transportation cost alone, on a quick calculation, would be somewhere in the neighbourhood of \$2.00 per Mcf. It is very questionable what the economics of this matter are.

Now, that is something which Inland will have to consider. Whether they have done it or not I don't know, but a quick appraisal would indicate that this is a very marginal gas service.

THE CHAIRMAN: That is a matter for Eagle Lake to decide.

MR. McDONALD: Yes. I was just pointing out that what they are going to do in the future --



of course, they have not informed me, of course, and I am not sure it has a direct bearing on the problem, but I point out that is something we have not been informed on.

I think I have made clear that nobody in Westcoast has the information contained on page 1 and the letter of April 21st; that is the 70 million foot capacity.

THE CHAIRMAN: But you have it now.

MR. McDONALD: Oh, yes, thank you, I have it now.

MR. PATTILLO: I just have one question I would like to ask you at this time, Mr. McDonald.

MR. McDONALD: I don't want to interrupt your question, Mr. Pattillo, but Mr. McMahon has one additional item of information which is entirely within his province which possibly he should put in.

MR. PATTILLO: In connection with the matter we are discussing?

MR. McDONALD: In connection with Prince George, the Prince George situation.

MR. PATTILLO: All right.

MR. McMAHON: Mr. Chairman and gentlem, early in 1957, when we knew that our pipeline project would be completed in late Fall and we were aware of the fact that Prince George were having these difficulties and were tied up in all the legal complications and it looked as though it was going to be



impossible for Prince George to complete the pipeline or get gas service when we arrived at the city gates, or close to Prince George, I took it upon myself and not as an official of Westcoast, but as an individual, to attempt to unravel this thing, if that were possible, so I wrote to Premier Bennett this letter, dated March 12, 1957, and I said:

"Dear Mr. Premier:

"Construction of Westcoast Transmission Company's pipeline is ahead of schedule and I expect natural gas will be available for British Columbia somewhere between August 1st and September 1st.

"Vancouver is completing its conversion to natural gas and work is under way in all major communities, with the exception of Prince George, to ensure gas service this winter. The construction of the branch line and the distribution system in Prince George involves a great deal of preparatory work and, unless planning and the purchasing of materials is started immediately, Prince George and the B.C. Power Commission will not have a supply of natural gas this winter.

"In order to ensure that there will not be a lengthy delay in gas service in Prince George, I am prepared to make arrangements



to provide the necessary funds and the materials for the construction of both the branch line and the distribution system in Prince George this year. I do not want to own or operate these facilities, and I make this offer with the understanding that these facilities would be sold at the cost to me to the company or companies ultimately empowered to own and operate this system.

"I make this offer because I feel that, if the people of Prince George are to have gas service this year, the planning and construction of the distribution system must be proceeded with without delay. I would be prepared to appear before the proper authorities for the purpose of securing any authorizations required on the basis which I have outlined on advice from you."



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Now, we found out later that that was impossible; there was no way in the world you could deliver gas to Prince George at this time. It is tied up legally, and it was then. Now, this is a year ago, and I also feel that unless they get along with it quickly this year they will not have it.

MR. PATTILLO: The question I would like to ask Mr. McDonald is this: At the time or since up to the present moment has Westcoast Transmission Company Limited ever been advised by the Government of Canada or the Minister of Trade and Commerce of the Government of Canada that the obligation of Inland to Westcoast Transmission Company Limited set out in the agreement between Westcoast Transmission Company Limited and Inland to supply gas to the interior of the province constituted a compliance by Westcoast with the terms and conditions of section 2, sub-section (c) of the permit to export natural gas dated the 27th of June, 1955?

MR. McDONALD: No, we have received no communication from the Department of Trade and Commerce of any kind since the date of the issue of the licence on June 27th, 1955.

MR. PATTILLO: Has Westcoast Transmission Company Limited at any time requested the Government or any Minister of the Government to accept the



obligation of Inland as a compliance by Westcoast Transmission Company Limited of its obligations under section 2, sub-section (c) of the licence?

MR. McDONALD: No, the matter has not been consider so far as I know by any Government department.

MR. PATTILLO: Then you have never requested it?

MR. McDONALD: No.

MR. PATTILLO: Thank you.

THE CHAIRMAN: Mr. Pattillo, in regard to the answer which Mr. McDonald gave to your first question, I wonder if you would ask the reporter to read it from the transcript?

THE REPORTER: "No, we have received no communication from the Department of Trade and Commerce of any kind since the date of the issue of the licence on June 27th, 1955".

THE CHAIRMAN: Yes, but your question was directed toward the Government or department of the Government.

MR. PATTILLO: Did you receive anything from the Government of Canada itself since the issue of the licence on June 27th, 1955?

MR. McDONALD: No, but I think that in answer to your question -- I say no to your question, but I would like to amplify it this way. This question of the service beyond the main line has received



consideration in Ottawa. In presenting our case to the Board of Transport Commissioners we filed our contracts with all our purchasers including Inland, the one I read to you a few minutes ago. The same documents were filed with the Department of Trade and Commerce as part of the material in support of the application for the licence. The Order in Council approving our licence records what Westcoast undertook, as part of acknowledgement of the licence, (not in consideration of the issue of the licence), and one was from the main line to Kamloops, if it was not constructed by the Inland Company as contemplated in the submission to the Board of Transport Commissioners. Also it undertook to build a 40-mile line from Huntingdon to Vancouver which was constructed by the British Columbia Electric Company which was contemplated in the evidence submitted to the Board of Transport Commissioners, and to that extent the question of service to other communities had been given consideration by the Board of Trade and Commerce and by the Government. The sales contracts are on record but now refer to the Governor-General in Council.

MR. PATTILLO: Thank you.

Mr. Tupper, I see you standing up. Are there any statements that I have brought out by Mr. McDonald with which you disagree as statements of



fact?

MR. TUPPER: Mr. Chairman, I would like to say that there are matters relating to the proceedings before the Public Utilities Commission as stated by Mr. McDonald with which we would like to take issue, but we feel these matters are sub judice and we feel they should not be dealt with.

MR. PATTILLO: You agree as a statement of fact that there have been hearings before the Public Utilities Commission?

MR. TUPPER: Oh, unquestionably.

MR. PATTILLO: Accepting that statement of fact and excluding anything that may have been said by Mr. McDonald as to what went on there, do you agree with the statements of fact that Mr. McDonald has brought out here this morning as to the controversy between Prince George Gas and Westcoast on the one hand and as between Eagle Lake Sawmills Limited and Westcoast also?

THE CHAIRMAN: And Inland.

MR. PATTILLO: And Inland.

MR. TUPPER: I will agree that they do not relate insofar as the issues before the Board.

I would like to ask one question.

THE CHAIRMAN: Certainly.

MR. TUPPER: Mr. McDonald, would you tell the Commission how it is proposed that East Kootenay is to be served by Westcoast Transmission



Company?

MR. McDONALD: If the Westcoast Transmission Company builds a pipeline from the Alberta border to Kingsgate the main line will afford facilities for laterals for distribution to Cranbrook, Kimberly, possibly Creston and the other small towns. There is in the evidence before the Oil and Gas Conservation Board in Alberta, as in the evidence before this Commission, a letter from Inland Natural Gas Company in which they express the intent that if and when they think the time is right they will give consideration to building that pipeline.

MR. TUPPER: Has there been any consideration given to rates charged in East Kootenay as compared with the rates charged elsewhere on the Inland system in British Columbia?

MR. McDONALD: No, I haven't discussed that.

MR. PATILLO: I quite frankly think that the rates that may be charged by a provincial company such as Inland to municipalities within the Province of British Columbia cannot possibly come within the jurisdiction of this Commission.

THE CHAIRMAN: That is right.

MR. TUPPER: I simply take that position, because it was a very parallel situation between the service to the community through the imposition



of Inland Company in East Kootenay and in British Columbia. That is all.

THE CHAIRMAN: Thank you, Mr. Tupper.
Mr. Tupper, I think if you have any further questions --

MR. TUPPER: I would like to make a statement in connection with Eagle Lake.

THE CHAIRMAN: Certainly.

MR. TUPPER: Mr. McDonald raised some question about the feasibility of a project there, and you, sir, properly, I think, said that that was, of course, a concern for later. I would like to say that the question of the feasibility has been and is still under consideration and that the factor there is, there is a unique situation in that the domestic load and the mill rate balance each other out; there is an exceptionally high load factor. If we can get these things without having to pay a middleman's share to Inland, it might well be an economic proposition.

THE CHAIRMAN: I think, Mr. Tupper, if you wouldn't mind, that Dr. Hardy would like to ask you a question.

MR. COMMISSIONER HARDY: Mr. Chairman, more or less irrespective of the dispute that seems to be involved in what has come forward here today and in connection with your recommendation 2 on page 9, the City of Prince George realizes that



their proposal here of considerable extension of Federal power is compared to what is generally accepted in all of the provinces now and there is substituted for the provincial jurisdiction a Federal jurisdiction. That is really what you want.

MR. TUPPER: Actually what we are concerned with, sir, is that the present machinery which has been set up and which we feel has not been enforced as it should be should be enforced in its present form, or if, in fact, the terms of Regulation 9 are not sufficiently precise to take care of what we think is the clear spirit of the consideration, that they should be amended so that, in fact, the Department has the power to take what we think is a clear and very obvious course to take.

MR. COMMISSIONER HARDY: Are you familiar with the examples in procedure followed by the Saskatoon Power Commission?

MR. TUPPER: I am afraid I am not.

MR. COMMISSIONER HARDY: We had evidence laid before us last week which suggested that type of extension of Federal control that you are recommending would be quite objectionable in some part of the country.

MR. TUPPER: Well, sir, we take the position -- we are not asking for any extension of the power which is already purported to be given under



the provisions of the Exportation of Power and Fluids and the Importation of Gas Act, the power already exists. It may well be that during a period to clearly define the machinery this power should be enforced in the regulations. No action has been taken at the present time to enforce the regulations. Power does exist under the Act, and the prompt and quick way of dealing with the situation is by way of enforcing that regulation.

MR. COMMISSIONER HARDY: But your case is presently being dealt with by the Public Utilities Commission in the Province.

MR. TUPPER: That is correct.

MR. COMMISSIONER HARDY: That would be the case, as we understand it, in most of the other western provinces, and what you are asking for is that their jurisdiction be overridden by Federal jurisdiction.

MR. TUPPER: I am suggesting that there is, in fact, a double-barrelled approach on the matter, and one matter is before the courts and cannot be discussed. There is another matter, without any amendment whatever, without any extension of their jurisdiction, and it is that position that we would ask this Commission to enforce.

THE CHAIRMAN: Mr. Pattillo, is there anything further?



MR. PATTILLO: I have nothing further,
Mr. Chairman.

I suggest that we conclude the representations relating to the City of Prince George and Eagle Lake Sawmills Limited and adjourn until after lunch, at which time I understand that Mr. McMahon, in his capacity as President of Westcoast wishes to make a statement.

THE CHAIRMAN: Yes, we have copies of that statement.

The Commission will now adjourn, to reassemble here in this room at 2 o'clock.

---Whereupon the hearings adjourned at 12.30 p.m.
to be resumed at 2 p.m.



---On resuming at 2.00 p.m.

THE CHAIRMAN: The Commission will now resume its hearing. Mr. Pattillo?

MR. PATTILLO: Mr. Chairman, before we hear from Mr. McMahon and the original statement that Mr. McMahon proposes to make, although we have all had an opportunity to see it, I think there are some slight changes in the one I now have, before we do that I think Mr. Norris would like to have some exhibit numbers allocated to the document he was referring to this morning.

MR. NORRIS: Mr. Chairman, I would like to put in the Reasons for Judgment by Mr. Justice O'Halloran, Mr. Justice Davey and Mr. Justice Sheppard of the British Columbia Court of Appeal in the case of the Prince George Gas Co., applicant and Inland Natural Gas Company, respondent and parts of the factum of the Prince George Gas Co. Ltd. on that appeal. I would like to have numbers allocated and permission to file the actual documents later.

MR. PATTILLO: I suggest the Reasons be marked as V-23-4.

---EXHIBIT NO. V-23-4: Reasons for Judgment by Mr. Justice O'Halloran, Mr. Justice Davey and Mr. Justice Sheppard of the British Columbia Court of Appeal.



---EXHIBIT NO. V-23-5: Portions of the factum of the Prince George Gas Co. Ltd. on the appeal.

MR. NORRIS: Mr. Chairman, I would like to call Mr. Frank McMahon, president of the Westcoast Transmission Company Limited. I think it is proper for me to say at this time, in view of the other things that have been said, that he is a great British Columbian who has been responsible for the greatest development in British Columbia since Sir John A. McDonald brought the Canadian Pacific Railway into this province, carrying on with faith, courage and vision over many years in spite of the reverses and obstructions that would have discouraged an ordinary man.

I am going to ask Mr. McMahon to read his brief and subject to your direction will ask certain questions during the course of his reading and then, at the conclusion of the reading of the brief, I propose to put certain further questions.

MR. PATTILLO: I had not appreciated that: if that is the way you are going to operate, I have no objection to it. If you are going to interrupt Mr. McMahon during the course of his reading and if you are going to ask him further questions, then I think Mr. McMahon should be sworn now before he begins. Normally the procedure we follow is to



allow the person to read the submission and then have them sworn before we started questioning. Of course, as everybody knows, we only swear the witnesses relating to the pipelines. If you are going to follow that procedure, to which I take no objection, I suggest Mr. McMahon be sworn.

MR. NORRIS: I think the questions put to Mr. Norris during the course of the reading will be very few and I suggest, perhaps, that Mr. McMahon be sworn.

THE CHAIRMAN: I am sure Mr. McMahon will not object.

---EXHIBIT NO. V-23-6: Statement of Frank M. McMahon.



Statement of

FRANK M. McMAHON

President of Westcoast Transmission Company Limited

FRANK M. McMAHON, sworn

MR. NORRIS: Mr. McMahon, you are president of Westcoast Transmission Limited.

MR. McMAHON: Yes, sir.

MR. NORRIS: And you have prepared a brief which you would like to read to this Commission?

MR. McMAHON: Yes, sir.

MR. NORRIS: Will you go ahead.

MR. McMAHON: I am President of Westcoast Transmission Company Limited which I organized in 1949. I was also the organizer of Pacific Petroleum Ltd., Canadian Atlantic Oil Company Ltd. and Peace River Natural Gas Co. Ltd. (which is now Westcoast Production Co. Ltd) and I have acted as principal Executive Officer in these companies. I have been engaged in the oil and gas business for over 30 years.

I regret that due to illness I was unable to attend the hearings of the Commission held at Calgary in February. My purpose in attending on this occasion is to give the Commission an opportunity of examining me in my capacity as principal officer of the Westcoast Company, and to place before the Commission some of my views in respect to the gas



industry, which I hope will be of interest to the Commission.

NORTHERN DEVELOPMENT: As a Canadian born in British Columbia, I have long advocated a policy of developing the Peace River portion of the north country. This principle has guided my efforts over the past twenty-five years in the establishing of a natural gas industry in western Canada. The placing in operation of the Westcoast pipeline system last fall marked the culmination of these efforts and saw this policy carried into effect.

For over thirty years I have been looking for a supply of natural gas for Vancouver and the other populated centres of British Columbia. In 1928 I formed a company, acquired several thousand acres of petroleum leases in the Fraser River Delta, and drilled wells in the search of gas to supply the British Columbia Electric Company. During this period the B. C. Electric Company was most interested in my project and gave me every cooperation. Although these efforts did develop some small wells, of which I think one or two are still being used to supply farms in the Fraser River Delta, I did not find any really commercial gas.

When this early day exploratory drilling in southern British Columbia failed, I turned to the more promising western Canada sedimentary basin, where at that time the Medicine Hat, Viking and



Turner Valley fields had been discovered.

In looking for similar possible fields in the sedimentary basin, my attention was directed to a well drilled in 1924 by the Northwest Company, a subsidiary of Imperial Oil, near the Village of Pouce Coupe in the Peace River country. This well struck gas, blew out and burned for many years. The Northwest Company abandoned its interest in the well and the property. This well produced from a sand which appeared to be the same as the sand in the vast Viking field near Edmonton, and this parallel gave me the idea that there might be another extensive gas field like Viking in the Peace River area which could serve as a supply for Vancouver, some 650 miles to the south.

I realized that an intensive exploration program was necessary requiring large capital. In 1934 I made a trip to England where I endeavored to interest Shell Oil Company, Anglo Iranian and many other possible investors. I was introduced in England through the Guinness interests who were then investing money in Vancouver. I spent some five months in England on this occasion. Later I also attempted to interest other Canadian and United States oil companies, particularly the Standard Oil Company of California, but at that time there was no money available to undertake a project of the magnitude that would be required.



I was assured, however, by the geological staffs of the companies I interviewed, in both England and the United States, that the northern part of British Columbia and Alberta was one of the largest favorably situated but unexplored geological areas of the world.

While it had previously been possible to acquire acreage for oil and gas exploration in both Alberta and British Columbia, the Pattullo Government of British Columbia had by this time withdrawn British Columbia lands from exploration and development by private enterprise and had itself entered upon a development program. I set about acquiring acreage in Alberta and negotiating with the British Columbia Government for the release of B. C. lands. Finally in 1947, after years of negotiation with the British Columbia Government and after the government had drilled unsuccessfully, legislation was enacted permitting exploration by private companies. My companies then took out British Columbia Government Exploration Permits Nos. 1, 2 and 3.

Peace River Natural Gas drilled up the area around the old Northwest Company well in what is now known as the Pouce Coupe field. Instead, however, of the gas occurring in one vast blanket sand similar to the Viking field, as I had hoped, well drilling showed that the gas occurred in



accumulations on top of structural highs. This actually turned out for the best since these sub-surface structures can be located by scientific methods such as surface geology, core drilling and the seismograph. With such means many structures were located in the area. We drilled many dry holes and teaser wells until in 1951 the discovery well in the Fort St. John field came in and exploration in British Columbia was off with a blazing start.

Upon the announcement of our discovery of oil and gas in the Fort St. John No. 1 Well the major Canadian and American oil companies lost no time in taking up exploratory permits covering all of the 30 million acres in the sedimentary basin of British Columbia west of the Rocky Mountains.

In 1949, when Peace River gas was still mainly an idea, Westcoast applied to export the gas from Alberta over an all-Canadian route designed to develop Canada. We did not have an easy road, however, as we were bitterly opposed by other companies, principally Northwest Natural Gas Company and Prairie Pipelines Limited, which companies proposed to take gas from southern Alberta over a United States route to the West Coast, then back into Canada to Vancouver. The leading contender, Northwest Natural Gas Company, had purchase contracts for the Pincher Creek field; had sales commitments and understandings with the principal gas distributing



companies on the west coast, including B. C. Electric; and had financing arrangements with leading banking and investment firms in the United States. I would like to add that the understanding referred to above with respect to B. C. Electric is the understanding set forth in the letter of June 5, 1952 contained in the B. C. Electric brief in which B. C. Electric stated that they would buy from whichever company was eventually authorized. Their case looked good, but it did nothing for Canada. Their pipeline was to be constructed in the United States and Vancouver was to get the gas at the end of a stub pipeline after the American cities were all served.

In order to eliminate my opposition, the promoters of Northwest Natural offered me a very substantial interest in their proposed pipeline project if I would abandon my Peace River project at that time. If at any time in the future I did obtain sufficient gas and did build my Peace River project, they would expect the same interest in that project. Had I been out only for the money, I should have taken this deal. Instead, I believed in my all-Canadian plan and stuck out four years of costly hearings and negotiations to see my plan receive the required authorizations.

A great deal of time and effort was spent by the officials of all of the companies who made plans to transmit southern Alberta gas to the Pacific



Northwest States via the Crow's Nest Pass route. The interests supporting Northwest Natural Gas Company, Prairie Pipelines, and Mid-Continent Pipelines, were unremitting in their efforts to advance the proposals of their companies, using their influence in every quarter throughout the oil and gas industry and financial circles in Canada and the United States. In the face of this opposition, because it was the sound one in the interests of Canada, the Westcoast proposal prevailed and the efforts, time and resources expended by the backers of the other companies were totally lost. A similar fate could very well have occurred to Westcoast if the decision of the authorities in Canada and the United States had been in favor of one of the opposing factions.

I believe that had I not been steadfast in my determination to build a pipeline project that would develop Canada, there would have been little of the present growth in the north country. Vancouver would be dependent either upon United States gas or would be obtaining gas from the tag-end of a United States pipeline serving United States communities with Alberta gas, and British Columbia's present growing oil and gas industry would be virtually non-existent.

The type of development which Mr. Diefenbaker and others have so ably advocated for



northern Canada has already taken place in the Peace River area as a result of the successful conclusion of the Westcoast pipeline project. In the Westcoast brief submitted to the Commission in February, the economic impact of the Westcoast project was described in some detail and I would like to highlight the development as follows:-

1a. The consumers in British Columbia are getting an assured supply of natural gas at reasonable rates.

1. More than 2,000 Canadians have been employed in pipeline construction for the past two years.

2. More than 800 Canadians have been employed in plant construction in the last two years.

3. Permanent employment has been provided for more than 600 Canadians in the operation of the pipeline and related plant and producing properties.

4. The plant at Taylor, B. C. supplies about one-half of the motor fuel requirements for the north country and has resulted in a decrease of some 20% in gasoline prices. The plant also supplies propane for the whole of the north country at a one-third reduction from the price of previous supplies.

5. The plant at Taylor, B. C. will provide more than enough sulphur to supply all the requirements of British Columbia pulp and paper mills and other industries, and has freed the B. C. industries



from their dependence upon sulphur from Texas and has correspondingly reduced the flow of United States dollars out of Canada.

6. Following the granting of the export permit to Westcoast by the Alberta Conservation Board in 1952, drilling activity in the Peace River area has increased from 3 rigs working prior to that time to 36 rigs working in 1956 and 1957, providing employment for some 2000.

7. The communities in the Peace River area have increased from 2 to 5 times in population and now modern thriving communities have replaced what were formerly isolated outposts dependent solely upon agriculture. Nearly all of the domestic, commercial and industrial requirements for fuel are now supplied by low cost natural gas, propane and fuel oils.

8. Vancouver, the Lower Mainland and the Interior communities of British Columbia, including the Okanagan Valley and Trail-Nelson areas, are now supplied with low cost natural gas. The British Columbia Power Commission, in particular, obtains gas at a very much lower cost than corresponding industries in the United States, which in turn benefits the many users of electricity throughout the interior of the Province.

9. The consumers of electricity on the B.C. Electric system will be protected and will benefit



from the gas to be supplied to that Company for thermal electric generation.

10. The extension of the Pacific Great Eastern Railway from Prince George to the Peace River country was made possible by the sulphur, gasoline, and other freight revenue provided by the Westcoast project. This extension gives the entire area its first direct outlet to the Coast, and will be an important factor in the economy of the West.

11. As a result of the market facilities provided by the Westcoast pipeline, there will not be any large economic loss from the flaring and waste of natural gas incidental to production of oil in the Peace River area; accordingly, the tremendous economic waste which has occurred in Alberta need not be repeated in British Columbia.

12. A final but more indefinite benefit is the stimulus given to the expansion of industry into the Peace River area as a result of the availability of a low cost fuel supply and raw materials for petrochemical manufacture. Already there have been many evidences of such interest.

If I may make a remark, there has been a great waste of gas encountered in Texas, Oklahoma and all parts of the United States as a result of the production of oil and we did encounter it in Alberta. We wasted in Alberta, as a guess, some 4 trillion feet of gas but there was no market for



the gas other than what the local communities used; so, during the process of producing oil much gas was flared and that happened in many parts of the world until the long transmission line provided a market. It happened in Alberta and, to some great extent, in the United States. It just so happens in British Columbia we found gas first in quantities and we are now taking gas from dry gas fields and also from oil wells, gas-oil wells. As a result, we are saving every cent of gas now that is being produced with the oil. This is probably one of the first, I think I can safely say it is the first time it has ever occurred in any country.

THE CHAIRMAN: That is very interesting.

MR. McMAHON: It is going to have a great effect although it was probably accidental.

As part of our development program in the Peace River area, Westcoast and its associates constructed two 4½-inch diameter pipelines serving the two major centres in the area, namely, Dawson Creek in British Columbia and Grande Prairie in Alberta. The Dawson Creek pipeline was built in 1950, 17 miles in length, from Pouce Coupe field, Alberta to Dawson Creek, British Columbia. This line established that gas could be dehydrated, wells operated, and gas transmitted through a pipeline buried 30 inches under ground without difficulty in 60° below zero weather.



The first permit granted by the Province of Alberta to Westcoast covering the export of gas from Pouce Coupe contained a condition that Westcoast provide for the building of a pipeline system to deliver gas to Grande Prairie and Spirit River and the small communities between the two centres. This pipeline was constructed from the Rycroft field some 55 miles in length, at a cost in excess of \$800,000.

I might interject there that line has now been extended some several miles at a cost of an additional \$300.

It was necessary for Westcoast and its associates to provide these funds and construct this pipeline before the Permit to remove gas from Alberta was validated.

Because of delays in obtaining authorizations for Westcoast, it was necessary to go ahead with this system and put up the cash required for construction before Westcoast had any money available from its own financing.

Both Dawson Creek and Grande Prairie are now thriving modern communities and natural gas has contributed in a large measure to the growth of these centres of population in each Province. Essentially 100% of the homes use natural gas with 100% space heating saturation. All of the electricity is generated from gas at great saving over other fuels. It should be noted that the city gate price at Grande



Prairie is 35¢ and the utility company distributes the gas at a spread of 28¢, making the price to the consumer 63¢, about one-half the cost of oil.

Now that a market outlet for natural gas is available, developments can be expected to continue at an accelerated rate. For example, Pacific Petroleum in February discovered a new gas field near Fort Nelson, some 200 miles north of Fort St. John. I visualize that as a result of this continued exploration northward and the exploration efforts of Pacific Petroleum, Westcoast Production, their associated drilling partners and other producers, a population centre similar to Fort St. John will be created at Fort Nelson. In turn, Fort Nelson can become the northern terminus of an extension of the Pacific Great Eastern Railway which, with the Alaska Highway, can serve to open up for development a further great part of the north.

The gross gas reserve in the Peace River portion of Alberta and British Columbia is in excess of 5 trillion cubic feet. The Commission has heard evidence to the effect that 35 trillion cubic feet of producible reserves can be expected to be developed by 1982 and that the ultimate reserve will be in the neighborhood of 89 trillion cubic feet.

Although the Westcoast pipeline is presently transmitting only about 300,000 Mcf per day, the pipeline can be expanded to a capacity of 660,000 Mcf per



day by the addition of compressor stations, and it can be expanded further as required by the construction of a second or loop pipeline.

It is my opinion that with the proper incentive to the producers to explore for and develop gas and with the proper incentive to the pipeline companies to invest money to expand gathering systems, processing plants and transmission facilities, there can be no question but that adequate gas reserves in the Peace River area and transmission facilities out of the area will be developed to meet all foreseeable future requirements of British Columbia and to provide additional volumes for export to the United States. Unless these incentives of field price and ready markets are given to the producers to invest the many millions of dollars that will be required to discover and develop this gas, I do not believe that the required volumes of gas can be made available for consumers in Canada, let alone the United States.

If producers are given such incentives, then British Columbia in its turn will have a healthy oil and gas industry. The people of British Columbia will then benefit from revenue from royalties, the sale of Crown lands at auction and all the advantages that go with oil and gas developments, just the same as have the people of Alberta. Results will all depend on securing markets for the gas, developing



the gas, and selling it.

Throughout all of this development by Westcoast, the control of the Company has been kept in Canada.

PRICE OF GAS TO B. C. CONSUMERS: The Westcoast brief presented to the Commission detailed the arrangements for the sale of gas in British Columbia between Westcoast and the two distributing companies, B. C. Electric Company Limited and Inland Natural Gas Co. Ltd. While the average price that Westcoast obtains from B. C. Electric is 30.5¢ per Mcf the wholesale price represents only 22% of the price paid by the average householder in Vancouver of \$1.41 per Mcf. The average price received by B. C. Electric for all gas sales, including interruptible industrial, is about \$1.00 per Mcf.

In view of the misunderstandings evidently created in this regard, I feel it is desirable to give to the Commission background information relative to the fixing of the price to the distributing companies in British Columbia.

In its original proposal in 1952 Westcoast planned to deliver gas to both Canadian and United States communities throughout the Pacific northwest as a common market with the principal customers being Vancouver, Seattle and Portland. From the very start of negotiations the B. C. Electric Company joined with the Seattle Gas Company and the Portland Gas & Coke



Company in requesting Westcoast to sell to Vancouver, Portland and Seattle at the same price.

At a meeting held in the Hotel Vancouver in April 1952 attended by Mr. A. E. Grauer of B. C. Electric, Mr. C. H. Gueffroy of Portland Gas & Coke Company and Mr. N. H. Gellert of the Seattle Gas Company, I was requested to set up a common city gate price and to supply gas at a price of 35¢ per Mcf at 70% load factor. I agreed to these premises and the whole case of Westcoast before the Federal Power Commission was presented on this basis and supported by the B. C. Electric and Portland Gas & Coke Company.

While we had this arrangement for a common price on the west coast, we had no such arrangement with the communities in the interior of Washington and Idaho, and we proposed a higher rate to Spokane and the other communities in that area because the costs of transmission were higher. As the Commission knows, this plan was turned down by the Federal Power Commission, principally on the grounds that the Commission did not believe that a large segment of the U. S. population should be dependent solely upon a foreign source of gas and that the Pacific Northwest Pipeline proposal offered a common price to all of the western States and not just the communities on the west coast. Instead, Pacific Northwest Pipeline was authorized to serve all of the communities and the



wholesale city gate rate was fixed at 32¢ per Mcf at 90% load factor.

MR. NORRIS: Mr. Chairman, I would like to put in here through Mr. McMahon a copy of the extracts from the Vancouver Sun, June 18, 1954, which shows the effects of that proceeding in Washington on the markets here.

THE CHAIRMAN: On what markets here?

MR. NORRIS: On all the markets.

MR. PATTILLO: The stock markets?

MR. NORRIS: The stock markets.

THE CHAIRMAN: That is about the one thing we are not called upon to investigate; that is, the stock markets. Certainly, we will receive it in evidence.

MR. PATTILLO: That would become Exhibit V-23-7.

---EXHIBIT NO. V-23-7: Extracts from the Vancouver Sun, dated June 18, 1954:
Headlines, Washington Decision.
B.C. Gas Line killed. Stocks
tumble here. \$110 million
gamble lost.

MR. PATTILLO: I think I should put on the record I have been told that if I keep on with the word "killed" that it would probably apply to me before I am through.

Following this defeat I started negotiations with the prospective purchasers of gas in the western United States, including first Pacific Gas and



Electric Company and then Pacific Northwest Pipeline. After months of negotiation I was able to obtain an offer from Pacific Gas and Electric Company to buy 400 million cubic feet per day at 20¢ per Mcf at 90% load factor, which I considered unsatisfactory.

Immediately upon being turned down by the Federal Power Commission we filed an appeal to the courts which was making it impossible for Pacific Northwest to finance and go ahead with its project. We felt that our appeal had merit but the proceedings in court could last as much as three years, so that when Pacific Northwest approached us for some compromise solution we decided to negotiate.



After detailed evaluation of their market, Pacific Northwest officials felt that they could purchase 200 million cubic feet per day and I asked a price of 24¢ per Mcf. Pacific Northwest officials considered this proposition in detail and found that they could not afford to pay the 24¢ price because it would raise the city gate rates in Portland and Seattle and the other cities above the 32¢ price which had been authorized by the Federal Power Commission and which had been determined by the distributing companies as the maximum price that they could pay and sell the volumes of gas for which they had contracted. At the same time Westcoast studied the proposal and found that the 200 million cubic feet per day was not a sufficiently large volume to provide for the financing of the Westcoast pipeline.

In a continuing attempt to reach an economic compromise Pacific Northwest went to El Paso Natural Gas Company and was successful in making arrangements to sell 100 million cubic feet per day of additional gas to El Paso so that Pacific Northwest would be in a position to purchase the 300 million cubic feet per day required to finance the Westcoast pipeline.

The 300 million cubic feet per day of Canadian gas was to be consumed in Washington,



Oregon, and parts of Idaho north of Boise. Pacific Northwest estimated the costs of its system in these States and concluded that the cost of transporting Canadian gas from the international border near Huntington, over 700 miles, to all of the communities would be about 10¢ per Mcf. The international border price then was determined by deducting the 10¢ from the 32¢ which was the agreed city gate price at Vancouver, Seattle and Portland.

MR. NORRIS: Now, Mr. McMahon, I would like to ask you this question. As I understand it, in order to use 300 million cubic feet a day of Canadian gas Pacific Northwest has had to build some 700 miles of pipeline to get the gas to the various cities to be served with Canadian gas at a cost originally estimated at 10¢ per Mcf. Now, had you been successful in the first instance and Westcoast, Inc. were serving these communities, Westcoast, Inc. would have had a border price that would reflect the estimated 10¢ transmission charge in the United States. In other words, the border price would have had to be 10¢ less per Mcf than the uniform city gate price in Vancouver and communities served in Washington and Oregon.

MR. McMAHON: That is correct.

While Pacific Northwest Pipeline originally estimated that this transportation cost would be about 10¢ per Mcf, I have checked with



Pacific Northwest and find that the actual cost today is about 16¢ per Mcf. The actual cost of the Pacific Northwest system north of Boise, Idaho required to absorb the Canadian gas is \$93,385,138 and the cost of service to earn a 6-1/2% return is \$15,693,241 annually. For the sale of 300 million cubic feet per day at 90% load factor, this annual cost amounts to about 16¢ per Mcf. As a result, the Pacific Northwest Pipeline Corporation has had to apply to the Federal Power Commission for a 17% rate increase for the American cities, which increase went into effect in February.

If Westcoast had been successful before the Federal Power Commission in the first instance and was today supplying these communities in Washington, Oregon and Idaho, we, likewise, would be faced with this 16¢ transmission charge and would have to go to the Federal Power Commission for a rate increase and, in keeping with the agreement between the B. C. Electric, and Portland and Seattle Companies, we would have had to raise the Vancouver city gate price in like amount. Under these circumstances, the Westcoast contract with B.C. Electric which fixes the rates for 20 years is very much in the interests of Vancouver consumers and B. C. Electric, which, of course, is the explanation of why B. C. Electric wishes to exempt its agreements with Westcoast from regulation.



MR. NORRIS: There are two substitute pages now, Mr. Chairman, 16 and 17.

MR. McMAHON: Had B. C. Electric been in a position to sign a 90% load factor contract to take-or-pay for 300,000 Mcf per day for 20 years, it could have had the gas for 22¢ and we would not have bothered with the U. S. market. B. C. Electric could not do this, and as a matter of fact the maximum day load reached by B. C. Electric in the past winter season, which was their second winter of natural gas service, was a mere 25,000 Mcf per day, less than 10% of the volume required to support an economic pipeline.

Not only was it impractical for B. C. Electric to sign a take-or-pay contract for 300 million cubic feet per day, its officers were never willing to sign definite contracts for any commensurate amount on a take-or-pay for basis. As a matter of fact, even the volumes estimated to be required by B. C. Electric were so small in the light of the population to be served, that Westcoast was required, for the purpose of financing, to have an independent market estimate prepared at a cost of over \$20,000.00.

The B. C. Electric Company could not at that time and, as the Commission will learn, could not today enter a contract on the same terms as the United States contract. By March 31, 1958



the Westcoast pipeline had been in operation for six months and B. C. Electric Company had purchased 4.2 billion cubic feet of natural gas for which they paid an average of 30.5¢ per Mcf. Had the B. C. Electric for example purchased this gas under the U. S. contract with a contract demand of 300,000 Mcf per day this gas would have cost \$2.55 per Mcf. Had the B. C. Electric Company bought this gas under the U. S. contract but with a contract demand of 130,000 Mcf per day, which is the actual obligation of Westcoast to deliver gas to B. C. Electric, the price would have been \$1.10 per Mcf.

Instead of having to contract on a firm basis for its future gas supplies, B. C. Electric obtained a free option from Westcoast to obtain all of the gas that it estimates that it requires for many years and is not obligated to purchase any volume of gas other than that which it actually sells. Accordingly, B. C. Electric is in a position to develop its markets at its own pace rather than be obligated to sell as it would be under a take-or-pay for contract. When I say "their own pace" I do not mean to infer a slow pace. B. C. Electric has informed me that they are spending some \$50 million in a very extensive main installation program designed to obtain the maximum attachment of customers.

The prices charged by Westcoast are far



below the prices of competitive fuels so that the B. C. Electric is in a position to develop a maximum natural gas market. B. C. Electric contracted with Westcoast in 1955 for the same price that it had requested in 1952. Originally the price to B.C. Electric was the same as the corresponding prices to United States communities but is now very much lower because of the recent price increases in the United States. Further, the price to B. C. Electric is fixed for a term of 20 years so that its price will be relatively even lower in the future as United States prices increase further. Considering the more favourable city gate price that B. C. Electric enjoys, it will be possible for the householder and industry in British Columbia to buy gas cheaper than comparable consumers in the neighboring states of Washington and Oregon.

Westcoast has also provided for the sale of interruptible industrial gas at 22¢ per Mcf in British Columbia which is much more favorable than the price of 25¢ paid at Portland and Seattle. In addition, the B. C. Power Commission is purchasing gas for electric power generation at 22¢ per Mcf which is only a fraction of the cost of competitive fuels in the interior of British Columbia.

While Westcoast does sell gas to Pacific Northwest Pipeline Corporation at 22¢ per Mcf, this is a price paid by one transmission company to



another. It is not the so-called city gate price paid by a distributing company to a transmission company as is the sale by Westcoast to B. C. Electric. B. C. Electric purchases its gas from Westcoast and sells all of it within some 40 miles of the point of purchase. Pacific Northwest, on the other hand, purchases the gas at Sumas and transmits it over more than 700 miles of main transmission pipeline. Of the 300,000 Mcf to be sold at Huntingdon to Pacific Northwest, less than $1/3$ is consumed in the State of Washington west of the Cascade Mountains. About $1/3$ is consumed in the State of Oregon, more than 225 miles south of the border, and the balance is consumed in Washington and Idaho east of the Cascade Mountains. As I have stated, by the time that Pacific Northwest delivers this gas to the corresponding city gates of the United States distributing companies, the city gate price is substantially higher than the city gate price charged at Vancouver by Westcoast.

In view of these facts which clearly show that British Columbia utility companies are receiving gas on more favourable terms than United States utilities and in view of the fact that the B. C. consumer could not have obtained any gas at a reasonable price without the U. S. market, it certainly cannot be true that the B. C. consumer is subsidizing the sale of gas to the United



States.

The Present Situation: As I previously stated, the 22¢ price to Pacific Northwest Pipeline Corporation was fixed entirely on the basis of competitive factors at the time; it was the best price that we could get. We sold this initial block of gas (necessary to get the whole project under way) under the economic circumstances prevailing in 1954 with the expectation that we would sell additional blocks of gas in the future at higher prices if competitive values increased. Carrying out this policy determined at the time of entering into the initial contract, we are now negotiating for the sale of increased volumes of gas to Pacific Northwest Pipeline Corporation at prices which will raise the average price for all of the gas, both the original gas and the new gas, to its competitive value in the light of circumstances today.

Future Plans of Westcoast: The Westcoast Company is now in business and in the ordinary course of its business, Westcoast is proceeding with its proposed project to build a pipeline from southern Alberta to the international boundary to connect with an extension of the Pacific Northwest pipeline in Idaho which will provide the most economic outlet for either a small or a large volume of gas surplus to the needs of Canada. This project is supplementary to the Westcoast pipeline from the



Peace River area since it provides a means whereby Westcoast can provide a second source of supply to its customers in Canada and to the United States through Pacific Northwest and El Paso and the market areas which they serve.

Just as our Peace River pipeline spurred the economy of the north country and provided new natural gas services to populated centres, so will our new proposed line supply gas to southwestern Alberta and southeastern British Columbia communities which have not enjoyed this service, and millions of dollars of new investment will be added to the economy of southwestern Alberta. Details of this plan were presented before the Commission and I am confident that the Commission can see the merits of this plan and I am hopeful that it will report favorably upon same.

Also in the ordinary course of its business, Westcoast is planning to extend its gathering system in the Peace River area, to increase its compressor capacity and to loop its existing pipeline to take care of increasing markets in both Canada and the United States.

All of which is respectfully submitted.

MR. NORRIS: Now, Mr. McMahon, I would like to read you certain evidence, which I think is the quickest way of doing it, and get you to comment on it.



THE CHAIRMAN: Mr. Norris, would you like to have a ten minute break before you do that?

MR. NORRIS: Yes, Mr. Chairman, it would be very helpful.

THE CHAIRMAN: We will recess for ten minutes.

---A short recess.



THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing.

Mr. Norris?

MR. NORRIS: Mr. McMahon, I am proposing to read to you certain extracts from the evidence, part of which were in previous hearings in Calgary and part of it here and in the B.C. Electric brief, and I am going to put these extracts to you and ask you for answers and a comment on it.

Now, will you refer to Volume 9, at page 1330. The Chairman is questioning Mr. Hetherington and this is the quotation:

"THE CHAIRMAN: There is one question that I would like to ask Mr. Hetherington. Assuming for a moment that B.C. Electric was prepared to purchase the same quantity, 300 million cubic feet, of gas, would you be prepared to give them a contract with the same terms as the contract with Pacific Northwest?

"MR. HETHERINGTON: In the light of the situation as I know it today we would not be.

"THE CHAIRMAN: Thank you."

Now, I ask you, Mr. McMahon: would you have been prepared to give such a contract to B.C. Electric Company at that time?

MR. McMAHON: Yes, at that time we would have been.



MR. NORRIS: The next quotation I am going to put to you is from the British Columbia Electric brief, at page 23. Mr. Robertson was reading this and it reads as follows:

"However, during the negotiations B.C. Electric told Westcoast that it would strenuously oppose the granting of any licence under the Exportation of Power and Fluids and Importation of Gas Act for the exportation by Westcoast to Pacific Northwest at the price of 22¢ per Mcf of the 100 million c.f.p.d. of gas in addition to the 300 million c.f.p.d. called for by section 1 of Article IV of the agreement of 11th December, 1954. B.C. Electric now urges this Commission to make a recommendation accordingly in its report, that recommendation to be acted upon until a National Energy Board is formed and functioning."

Now, he is dealing with this 100 million. Now I am going to read you another part, Volume 12, page 1730, where the Chairman was questioning Mr. McDonald:

"THE CHAIRMAN: So what you, in effect, are planning to do I assume is to enjoy a better price for the additional 150 million feet to bring the total up to 250 million feet, assuming you get the



price up to a price that is going to be profitable and give you 7 1/2 per cent return?

"MR. McDONALD: That would be the ultimate object of our negotiations; we will endeavour to get that.

"THE CHAIRMAN: Therefore, if you didn't get the permit for the additional 150 million cubic feet not covered by this, you would have no obligation with respect to that additional 100 million cubic feet to deliver to Pacific Northwest?

"MR. McDONALD: That is correct.

"THE CHAIRMAN: Is that a fair summation of the present legal position?

"MR. McDONALD: Yes, that is the exact position."

Now, Mr. McMahon, I ask you this: In the light of Mr. McDonald's answer as elicited by the Chairman, it would appear that there was no need for Mr. Robertson's apprehension as indicated in the first quotation. Do you agree to that?

MR. McMAHON: I agree to that and, further to that, the old contract is null and void now. We are hoping that we will be able to deliver a further 250 million feet to the Pacific Northwest at some future date, but we have not arrived at prices. It will have to be on suitable terms to ourselves which will give us a much better price, across the



board, so we have no obligation now whatsoever in that respect.

MR. NORRIS: Now I am going to read from Volume 12, page 1753:

"Q. Can we get back now to this, then: unless you do obtain a permit to export additional quantities of gas to the United States at Sumas, under the present situation as it exists today, the Canadian consumer on this line and the producers supplying this line will be the two groups which are subsidizing the sales to the United States?

"A. No, I don't agree with that."

Now I ask you: was there any such subsidy?

MR. McMAHON: I do not agree that there was any such subsidy and I would like to point out that when it came time to decide upon the size of pipeline that we should install originally -- this was quite some time back -- I wanted to build the largest big-inch pipeline that I could afford. Working strictly on the volumes of gas that the B.C. Electric estimated that they would require, I should have built a 24-inch pipeline instead of a 30-inch pipeline. At that time all our operations were with respect to a 24-inch line, although we had done considerable work as to the costs of a 30-inch line.

A 24-inch pipeline would have cost about



\$108 million instead of \$172 million that we actually spent, and the revenue from the sale of 300 million cubic feet per day at 22¢ would have produced very attractive earnings on the \$108 million investment. Now, the 24-inch line would not have carried sufficient gas for future markets but there were many people that advised us that that is what we should do and "forget about what you are going to do in the future; supply present needs and make a profit on that and then loop or build new lines." We did not do that. We built a 30-inch line, which was the best size that we could build between 36 and 30.

Now, while a 24-inch line may have been adequate, I wanted to build a 36-inch line and I spent many thousands of dollars working out the economics of large-diameter lines. However, the estimated available revenue would only support the financing of a 30-inch diameter pipeline and that is what we built. In view of the development of the natural gas market in British Columbia, as submitted to the Commission, I am very pleased that we built the 30-inch line, although I still wish I could have afforded a 36-inch pipeline. At the present time, with our application that is now before the Commission in Alberta, we are again contemplating not less than a 30-inch line and we are hopeful we will be able to install a 36-inch line.



While the sale of 300 million cubic feet per day at 22¢ per Mcf obviously will not produce the earnings for the \$172 million 30-inch pipeline that it would produce for the \$108 million 24-inch pipeline, the price of gas to the B.C. consumer has not been raised one cent over what it would have been had we built the smaller line. The Westcoast Company is absorbing this difference by taking lower earnings during the initial years with the resolute expectation that its earnings will grow and increase as the market grows to fill up this larger-diameter pipeline.

If the Commission is to make studies on the earnings that can be expected in the future from sales of gas to the U.S. and to British Columbia and they speculate on the increased sales of gas in British Columbia, they must also speculate that we will sell additional gas to the United States at increased prices. For example, the sale of an additional 200 million cubic feet per day to the United States at about 45¢ per Mcf will bring the average price of all of the export gas, both of the original 300 million cubic feet per day and the new 200 million cubic feet per day to in excess of the 30.5¢ presently being paid by B.C. Electric, and we are hopeful that that will be the end result with this large-diameter pipeline.

MR. NORRIS: Now, Mr. McMahon, in the



British Columbia Electric brief, at page 3, Mr. Robertson said:

"In order to ensure adequate deliverability and also to allow for production losses, these requirements should probably be backed up with a proven reserve in the ground of between 7 and 8 trillion cubic feet."

Do you agree with Mr. Robertson's statement?

MR. McMAHON: I agree with Mr. Robertson's statement. The only thing that has to be pointed out, I believe, is that our experience in the Peace River area and the experience of many others in Alberta and other places is that it is going to cost approximately \$20 million, \$20 to \$25 million for every trillion cubic feet that is discovered and developed. Now, that amounts to something in the range of 2 to 2 1/2¢ per Mcf. In order to do that and keep the producers working, we are going to have to have reasonably good field prices that will give the incentive to the producers to spend that amount of money and we have to have ready markets and, if gas should be sold on the basis where it could be restricted in some reasonable way that will provide sufficient reserves for the Canadian markets, you will have to export some, because during the process of development, this gas, quite a large quantity of it, is going to have to be sold; but I believe the only way we are going to be



able to develop gas for the consumers in British Columbia and keep ahead of the consumers in British Columbia, some several years ahead of them at all times, we must provide a real incentive to the producer. He is really the fellow who is laying the golden eggs, when it comes down to the final analysis, and he has to make a fair return on his investment.

Now, there are several situations in Canada today where the large oil companies will not sell their gas at the prices that we now offer to pay. That does not mean only what we are offering but what Trans-Canada is offering, and others, because they do not feel that they should sell the gas at this time, that they will get a better price as they go down the road, and that has happened in the United States; they have held gas in reserve in many places. Most pipelines that have been built in the United States, and that is the only place where we have gas pipelines, and the other places in Canada where we have a big line today is West-coast and Trans-Canada -- most of those pipelines were started off with gas field prices that ranged from very low figures, 5¢ a thousand, on up to 6¢ or 7¢ and so forth, and the average price of gas in the United States today is approximately 9¢ to 10¢ for all transmission gas, all systems.

It is true that there is lots of gas being



sold today at higher field prices, 18¢, 20¢, 22¢, as high as 22¢, but that gas, generally speaking, is going into systems which have already been built and amortized and the transportation charges are much less than a new project would be.

Mr. Hetherington reminds me here that to develop 8 trillion feet is going to cost in the range of \$160 million for the development of the gas alone. It will cost at least \$50 million more for plant and another -- these are all rule of thumb -- another \$50 million to gather that amount of gas, so you have something considerably over that \$200 million that will have to be invested over the next several years to develop this 8 trillion feet.

MR. NORRIS: Now, Mr. McMahon, at pages 5 to 15 of the B.C. Electric brief, Mr. Robertson deals with the constitution of a National Energy Board and the regulation of the export of natural gas. You heard his evidence. I ask you, in your opinion, should there be, one, regulation of prices from pipeline companies to distributors and, two, minimum prices for export?

MR. McMAHON: I will say "yes" to both questions.

MR. NORRIS: Perhaps I should add, when you come to that, what would be the nature of the regulatory board?

MR. McMAHON: Well, we have given this



a certain amount of consideration and we are certainly very interested in it. I would like to say that at least for the present it would be my recommendation that the Board of Transport Commissioners handle energy regulation with respect to oil and gas.

The reason I say "for the present" is that the Board is available and we are all in a hurry to get along with our business.

Now, the second thing: the Board of Transport Commissioners will require some additional staff, but the staff need only be a minimum staff. The Board can retain and call upon expert consultants to undertake special studies when they arise, such as

- a) geologic evaluation of gas and oil reserves;
- b) evaluation of markets in the United States or Canada;
- c) engineering costs and operating estimates for pipelines;
- d) special accounting investigations.

All of these services can be efficiently supplied at minimum cost by highly qualified geologic, engineering and accounting consultants familiar with the industry and always available. During such times as special studies are not required, the Commission is not burdened with a large and expensive staff. These consultants can be kept available on customary industry retainer.



For the purpose of approving pipeline construction and safety of pipelines, the Board of Transport Commissioners has acted very efficiently. The entire hearings for the 4 major Canadian pipelines today, Westcoast, Trans-Canada, Interprovincial and Trans Mountain required a total of between 10 to 15 days before the Board of Transport Commissioners to obtain authorizations to build their projects.

Now, an alternative is this: the days spent in Alberta, in hearings, was 136 days; before the Federal Power Commission, we spent 217 days. These are actual hearing days. These are after many adjournments and various other things.

MR. NORRIS: That was 136 days in Alberta and 217 days before the Federal Power Commission in Washington?

MR. McMAHON: That is correct.

MR. NORRIS: As against 10 to 15 days?

MR. McMAHON: Westcoast spent 4 days; Trans-Canada, 2 or 3; Interprovincial, 2 or 3, and Trans Mountain, 2 or 3.

In large part, the Board of Transport Commissioners relies upon the evidence of experts in the field rather than upon analyses by their own staff. There will not be so many pipelines built in Canada that the Board of Transport Commissioners requires a full-time staff to analyze all the phases of the pipeline business.



I believe that, for instance, rate hearings, export permits will probably be among the things which take up most of the time.

Now, in order to finance one of these pipeline projects -- and I am sure everybody here realizes this, but I would like to dwell on it for a moment -- we have to go to the Metropolitan Life Insurance Company or the Sun Life, and the first thing they require is complete engineering data by highly competent people, and your costs, your geology must be done by independent geologists of world renown. They have to be highly qualified and there has to be more than one, so before you can go to them to borrow your money, from the large insurance companies, they require two geological opinions from the highest authority. These fellows have to be fully qualified. They will not accept engineering studies that are not done by recognized people, such as, we will say, Canadian Bechtel or Ford, Bacon & Davis or Stone & Webster and many others.

Before we ever go to the Board of Transport Commissioners or any Commission that may be set up, we will have to arrive at all the details that have been put together by this type of people, that has already been examined and gone through to some great extent and comb it, because we have to show financial responsibility before we can come before any Board, and the result is that we have had to put



these engineering and accounting matters, and every part of it, before the Board with the proper experts.

Now, I believe that if a Board were in a position also to employ temporarily or retain temporarily, at times when these conditions arise, that same type of geologist or engineering firm or an accounting firm -- take the firm of Arthur, Anderson, which I only mention because they do a lot of pipeline work in the United States; or take Price, Waterhouse, that we use, who know all about the costs of pipelines and rates and tariffs.

Now, in order to employ technical staff of that type and keep them employed at all times on pipeline work alone, oil or gas, or both, would require a lot of money, and I do not know whether you would have the same results that you would get from possibly employing outside help, at least temporarily, and I would like to see oil and gas handled by one Board, if that is possible, or one group of people, and I think it is divorced completely from coal and other types of energy, because it has so many other complications, this business, that it may not be the same as in, for instance, atomic energy.



MR. NORRIS: You think there should be regulation of prices from the pipeline companies to the distributors; a minimum of prices for export.

In volume 25, pages 3635 - 3636 Mr. Pattillo asked Mr. Purdy: "Then, when you came to 1957 and you decided that you were going to build this thermal plant, to which you refer starting at page 21 of your brief, why, when you negotiated that contract, did you not fix a firm price for the residue of 48 million?" Why was there no fixed price for this 48 million cubic feet, do you know Mr. McMahon?

MR. McMAHON: I believe the correct answer is that when B.C. Electric were contemplating these plants, they were starting off in units of one or two. I believe the idea was to build two units at a time. I believe they are going to build two units now and they stated they wanted gas at some certain date to supply those two units and subsequent to that build two more units and at some later date they would need gas for those two units and they contemplated building six units altogether but they said that would be over a period of a long time. I think the way they talked about this it was on the basis they were sure to build but if they did not build the four the gas they would ask for at this time would be drawn into their system anyhow



and they would absorb it if they did not build the other two units. When it is so many years down the road it is hard to contract for gas that you are going to have to buy six, eight or ten years from now. It was by agreement between us there was no contract made although we said we would do everything in our power to reserve 144 million cubic feet for them.

MR. NORRIS: Mr. McMahon, on page 29 of the B.C. Electric brief following the recommendation appears:

" - - that consideration be given to enabling
"authorized Canadian distributors on occasion
"to purchase their own supplies of natural gas
"in the field and have them wheeled by pipeline
"companies to the areas of distribution, and
"in this way avoid paying higher field prices
"on natural gas previously contracted for consumption in the United States."

What have you to say as to the practicability of using Westcoast as a common carrier as was indicated?

MR. McMAHON: At the minute we could not say that even if somebody came to us that we contract with B. C. Electric to supply them with considerably more gas, the facilities we presently have would not carry anymore gas unless we put in more compression. I do not think we could possibly



do it. Not only that, I think it is impracticable because nobody is going to slide in under these big operators. I think, Mr. Chairman, you mentioned that the other day to get away from this favoured nations clause. There is 2 trillion feet of gas sitting up there right now that we cannot buy or ask for or anything else; it is just sitting alongside of our pipelines not owned by us but owned by others. If you could offer them a big enough price so that they would sell it to you there might be places where you would pay it but it would have to be a sizable price and I do not think it is practical.

MR. NORRIS: Following the presentation of the B.C. Electric brief on Monday, it was suggested that the Canadian public is being required to pay an inordinate amount for gas being a resource which is owned by Canadian citizens. Will you state the wholesale prices being charged by Westcoast and by Pacific Northwest Pipeline Corporation, and the resulting retail prices being charged by the British Columbia Electric Company on the one hand and the neighboring utilities in the United States on the other?

MR. McMAHON: I stated in my brief that B.C. Electric obtains its gas from Westcoast at an average price of about 30.5¢ per Mcf which is 33% of the average retail price of \$1.00 per Mcf



and 22% of the price of \$1.41 per Mcf, which the average householder in Vancouver pays. The utility companies in Seattle, Portland and Spokane pay a higher wholesale price and sell to the average householder at or about the same rate as B.C. Electric. As the load increases on the distribution system that B.C. Electric has installed, the price to the average householder in Vancouver can be expected to come down substantially.

With respect to the United States, West-coast sells interruptible industrial gas to B.C. Electric at 22¢ per Mcf, which B.C. Electric re-sells at about 40¢ per Mcf. In the neighboring United States, the utility companies pay an average of about 27¢ per Mcf for interruptible industrial gas and re-sell it for about 35¢.

In my brief at page 17, that I just read, when we drew this brief we did not take into consideration the 17½% rate increase so, that should read 27¢ rather than 25¢.

THE CHAIRMAN: What page is that?

MR. NORRIS: The last paragraph on page 17:

"Westcoast has also provided for the sale of
"interruptible industrial gas at 22¢ per Mcf
"in British Columbia which is much more favour-
"able than the price of 25¢ paid at Portland
"and Seattle."

Mr. McMahon now says that figure of 25¢ should be 27¢;



the original price was 25 and it is now 27.

MR. McMAHON: It seems that much of the publicity and various things that have been said about us -- most people consider a 22¢ price at the border is the price that the public are paying for gas. When we applied for the Federal Power Commission we had what is known as Westcoast Incorporated. It had to be an American company organized in the United States and we were going to purchase gas from Westcoast Limited and we were going to have a border price but we would have owned both those projects. Westcoast Incorporated was a wholly-owned subsidiary of Westcoast Limited and even had our project gone through several years ago when we were turned down, Westcoast would have had a border price that would have been substantially less than the prices that Portland and Seattle would have had to pay for the gas from B. C. Electric and that was by arrangement with those three. It had to be less because in each case the gas had to be transported to their consumers and the price was set between Portland, Seattle and Vancouver and so, because we were doing business between two countries -- had it been we were doing business in one country, either the United States or Canada, and those three cities or communities were in that particular country, we would have had no border price and we would not have had this contention about a 22¢ price. This whole



thing was based on the economics to supply gas in Portland, Seattle and Vancouver at a postage stamp rate.

There is only one more thing I would like to talk about a little: there is a certain urgency to this whole thing. The gas and oil business in Alberta and British Columbia today has slowed down, not to a walk but has slowed down quite a lot and it is principally because we have no markets for our product. We are not selling much gas to anybody. We are talking about selling a lot of gas but, so far, we are not selling it and we have been cut down on our oil exports.

The United States has quit buying oil, in certain parts of the country and have set up embargoes. The result is we are only producing a small portion of the oil that we can produce and that, in turn, has a great bearing on the gas business. Nearly every well, not all wells but nearly every field discovered in Alberta or British Columbia -- I say not all but nearly all -- was by reason of the fact that companies were looking for oil; they were searching for oil and because the geological conditions they found gas instead of oil or oil with gas or gas with oil.

Today we are flaring at even our restricted basis of producing oil, it is very restricted today -- in Alberta we are producing 250,000 barrels, it



fluctuates from day to day and we are wasting some 200 million feet of gas per day; we are burning it. If the oil restrictions were listed and we could show more oil we would probably be wasting twice that amount of gas. So here is a product flowing into the air that is being burned.

There are other things we have to take into consideration. An application by an outfit called Trans Western Pipe Line Company who propose to build a 670-mile 30-inch line carrying 350 million feet per day from Oklahoma, the Pan Handle, West Texas to the Arizona border of California. I happen to know the men who are promoting this project. They are people of substance. There are others trying to do the same thing and that is gas that is going to go into the Pacific Northwest or California areas, if they are successful with their application it is going to preclude Canadians from getting some of this market. It is not true that the United States is short of gas; a lot of people think they are but it is far from being true. I have just got one little statement with reference to Texas; Texas produces some 48% of the gas and has about 48% of the reserves in 1946 amounting to about 78.3 trillion feet and in 1956 the reserves amounted to 108.2 trillion feet and this is after a withdrawal of 30.35 trillion feet. From 1946 to 1955 Texas reserves have increased from 78.3 to



108.2 trillion cubic feet. Thus, more than 60 trillion cubic feet have been found in ten years. That is over 260 trillion feet of proven gas; this is not some problematical gas you have to search for. It is in reserves in the United States right now and they will find more. They found 21 trillion feet last year; that is almost as much as we have in Alberta after some years of exploration work. Therefore, I think there is some urgency to get the gas business and the oil business on the road. I am very pleased to see we have a Commission that is going to make recommendations to help this business out. We are going to need it.

MR. NORRIS: That is all I wish to ask Mr. McMahon at this time. I wanted to say a word or two about public utilities and have in mind certain questions Dr. Hardy asked the other day and I do not know whether this is the opportune moment or whether it should be a little later.

THE CHAIRMAN: I see no reason why you should not do it now.

MR. NORRIS: Perhaps I can make it very brief. I do not agree entirely with Mr. Robertson in connection with his reference to public utilities because a public utilities Commission can have an impact on the purchase contract of public utilities in this province because they will simply say, if you have an application



for an increase in rates, they will say you have entered into a contract and therefore you do not get your increase or you had better renegotiate or something of that sort.

DR. HARDY: Have they actually done that?

MR. NORRIS: I do not think they have actually done that but they have taken it into consideration.

I would like to just shortly mention sections of the Public Utilities Act. I do not think it necessary to read them: Section 8; Section 10; Subsection (2), this is Provincial Government; Section 16, A and B, A says the Commission shall consider all matters which it deems proper as affecting the rates; 20; 28, that gives the Commission power to have general supervision of all Public Utilities and so on; 29; 39; and 120 which particularly says the powers vested in the Commission by this Act shall apply notwithstanding that the subject matter in respect of which the powers are exercisable is a subject matter of any agreement or statute. I think those are the only sections I need to refer to.

The other matter I would like to mention, of course, is the matter of the rather impractical provisions of the British North America Act with regard to the regulation of Interprovincial Pipe Lines and simply to say this: It is a difficulty, as you



perhaps well know, in connection with marketing of fruits and vegetables and all those things and in Ontario the case of hog marketing of two years ago had some amazing results.

THE CHAIRMAN: Like stocks and bonds, they are not within the terms of reference.

MR. NORRIS: I am afraid I do not know what you can do about it, but there it is.

In regard to the Prince George case, I have submitted certain of these Reasons For Judgment and other documents and you will see that the whole matter my learned friend, Mr. Tupper, referred to is for the courts and, in any event, is a matter for the Provincial Public Utilities Commission. I refer particularly to Mr. Justice Davey's judgment, pages 6 and 7 and on the merits of Prince George vs. Penticton see pages 10 and 15 of his judgment and to Mr. Justice Sheppard who, I think, disposed of the matter fairly completely. Mr. Justice O'Halloran might also be found interesting.

I do not know, Mr. Chairman, that there is any more I can assist this Commission with at this hearing.

THE CHAIRMAN: Mr. McMahon, I want you to know that the Commission realizes completely why you were unable to be at the hearings in Calgary. We are very sorry you were not there but, nevertheless, we are grateful you found it convenient to appear before



us in Victoria and the submission which you have given today will, undoubtedly, be of great assistance to us. Also, I think I should tell you that the Commission has certain admirations for the vision, foresight and energy with which you and your colleagues got together this stupendous project. We have an appreciation in the evidence given to us in Calgary and, again, you were very modest today in speaking of the difficulties that had to be overcome. We realize that it took dogged determination and you deserve a great deal of credit. I would not in any way detract from Mr. Norris' opening remarks about Sir John A. McDonald and the C.P.R. but I would remind you, I think they ran into trouble. That may be small comfort to you and perhaps your troubles will gradually get straightened out.

You are aware, sir, the Commission retained the services of a firm of engineering consultants, Stone and Webster, Inc. to make an independent study and analysis on the costs and matters in connection with the Westcoast contract with Pacific Northwest. As your submission to the Commission today and the questions which Mr. Norris has asked you deals in considerable measure with that subject, we do not propose at this time to examine you with respect to this submission today.



As soon as reasonably possible after the Commission receives this independent engineering report Westcoast will be given a copy and we would hope that that would be by the end of May; we can't tell for sure. The Commission will formally receive that report in evidence at its hearings in Toronto commencing July 2nd next, and the Commission desires that Westcoast, through its counsel and technical staff, should cross-examine fully the engineers who will then be before it with respect to the contents of the report and the analyses that it may contain, and we would appreciate it if you would yourself or through counsel undertake now with the Commission that Westcoast will do such cross-examining at such time or, alternatively, then they study this agreement with the analyses and facts which are involved in the report. Likewise, at that time, if it should transpire that we desire to ask you questions with respect to your submission to us today and the transcript arising out of the questioning, we can have a similar undertaking from you that that opportunity will then be afforded to us.

MR. McMAHON: We will agree to that, sir, and I would thank you very much for your kind remarks and attention.

THE CHAIRMAN: We are very happy to have this submission from you. You are a bit of a



legend to us in Calgary. We are glad to see you and look forward to seeing you and your technical people and counsel in early July in Toronto, and you will receive a copy of the report just as soon as it is available to us.

MR. McMAHON: Yes. We appreciate that.

THE CHAIRMAN: Thank you very much.

Mr. Pattillo, is there anything else?

MR. PATTILLO: There is nothing else, Mr. Chairman. I move that we adjourn until tomorrow morning and take up the brief of Act Oils.

THE CHAIRMAN: Yes.

We will now adjourn the hearing of the Commission until 10.00 o'clock tomorrow morning in this room.

---Whereupon the hearing adjourned at 3.55 p.m.
until 10.00 a.m. on Thursday, April 24, 1958.

The Borden

ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

VICTORIA

B. C.

VOLUME No.:

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ROYAL COMMISSION

ON

ENERGY

Hearings held at Victoria,
commencing Monday, April
21, 1958, at 10.00 a.m.

PRESENT:

Mr. H. Borden, C.M.G., Q.C.	-- Chairman
Mr. J.L. Levesque	-- Member
Mr. G.E. Britnell	-- Member
Dr. R.D. Howland	-- Member
Mr. L.J. Ladner, Q.C.	-- Member
Dr. R.M. Hardy	-- Member

COMMISSION COUNSEL:

Mr. A.S. Battello, Q.C.	
Mr. Miles H. Patterson.	
Mr. J.F. Parkinson	-- Secretary to the Commission.
Major N. Lafrance	-- Assistant Secretary to the Commission



APPEARANCES:

Representing Act Oils Limited:

A. Digby Hunt	- Executive Vice-President.
Walter S. Owen, Q.C.	- Counsel
Fred Read	- Assistant Counsel

EXHIBITS

<u>No.</u>	<u>Description</u>	<u>Page</u>
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V-24-2	Map showing property interests of Canada Southern Petroleum Limited in northeast British Columbia	3938
V-24-3	Annual report of Canada Southern Petroleum Limited for the calendar year 1956	3938



---On resuming at 10.00 a.m.

---The Chairman was not present.

---Mr. Commissioner Levesque in the chair.

THE DEPUTY CHAIRMAN: Gentlemen, due to the unavoidable absence of Mr. Borden, our Chairman, I will be presiding for these hearings. So now we will proceed and I will ask Mr. Pattillo to speak.

MR. PATTILLO: Mr. Chairman, this morning we propose to take up the submission of Act Oils. Before we do so, I understand from Mr. Purdy of the B. C. Electric that he would like to make a statement for the record concerning some newspaper publications that have been, in Mr. Purdy's mind, disturbing.

MR. PURDY: Your Commission, Mr. Levesque, seems to attract a good deal of attention in the newspapers, as it properly should. Westcoast had occasion to ask to speak specially to the Commission on another bit of newspaper activity with respect to the Commission, and I would like to say a few words about the release in The Daily Colonist. I am not merely speaking to that, but much of what I say is very pertinent to the inquiry of the Commission.

Now, the headline of The Daily Colonist says that B. C. Electric buys gas at 30.5¢ and sells it to homes at \$1.41. Now, the figures are accurate

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in themselves but are completely misleading when they are hooked together; they have no common relationship with one another. In that headline we are having a mixture of apples and oranges. So that linking those two figures together is extremely misleading. We buy gas from Westcoast for a number of different types of customers that we serve, and these customers are typed by their load factor, that is by the regularity with which they take gas over the year, because, as you know in the past, we buy gas from Westcoast regularly and all our take of gas is very important in determining the price that we pay Westcoast for gas. So we buy gas from Westcoast for a number of different types of customers. At one extreme is the residential heating customer, and about 80% to 85% of our volume of gas sold to residential customers is used for residential heating. Now, that customer has a load factor of 32%, and the price that we pay Westcoast for that gas, the gas going to residential customers, is not 30.5¢, it is 53¢ under the demand and commodity charge that we pay Westcoast. We, on account of our residential customers, have to pay Westcoast 53¢ for the gas going to the residents, not 30.5¢.

Now, next in order to the residential customers are some moderately steady-using residential customers who will have a load factor of 50% to 60%,

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and we pay Westcoast 38¢ to 40¢ per Mcf for gas for them; and down at the other extreme we have the interruptible customer, the industry which takes gas from us under conditions where we can interrupt the supply, and that is a 100% interruptible load factor, and for him we don't have to pay Westcoast any demand charge. The cost of that gas is 22¢. So to get this overall 30.5¢ we have a great variety of customers taking gas, and we are paying Westcoast different prices for these different customers, and the price that we pay for residential heating customers is not 30.5¢ but is 53¢.

Now, one other thing that is quite pertinent to the inquiry of this Commission is that the present prices of gas are affected by the fact that we are developing a new natural gas business. Now, we can promote natural gas vigorously if we desire to in two different ways. One, we can cut the gas very low and supply a small area and get a high percentage of business in that small area, or we can do what B. C. Electric has done, and that is we have set a policy of spreading our mains very widely so as to make natural gas available to a very high percentage of the customers or potential customers that are in our service area. Now, the result of that today is that we have a very low density of customers per mile of main. That will correct itself in time, but it leaves itself in this position at the present time.



We have \$5 of capital investment per Mcf of gas sold in a year. Now, if you look at the annual reports of the Portland Gas Company you will find that they have an investment of only \$2 per Mcf of gas sold, and if you look at some of the other companies you will find it down to the very attractive figure of 85¢ of capital investment per Mcf of gas sold. The fact that we have \$5 of capital investment per Mcf of gas sold is a reflection of the policy my company has taken, that is putting very large investments into the ground in order to get out and reach a large or potentially reach a large number of customers in the area which we are to serve.

Now, our mark-up over our all, over all business, is the difference between 30.5¢ and \$1. Our average selling price for all our mixture of customers is \$1. Now, that is a spread of 70¢ and that is a spread which is not going to exist; it had better not or I would have to look for another job. So the investment is not \$5 per Mcf of gas sold but is \$2 or \$1.50. When that occurs, our mark-up is not going to be 30¢, it is going to be a much smaller figure, and the point which is pertinent to this Commission's inquiry is to turn that around the other way. So the price we pay Westcoast is 30% of our average selling price. That is the significance of the price the transmission company pays



today. So that sets a certain significance for this issue that concerns you, the price of gas sold by transmission companies.

But I would like very much to draw to the attention of the Commission that against this background of ours of being an early developer of natural gas and having a high investment per Mcf of gas sold, we are going to get increasing density of customers, and as we do that spread between 30¢ and a dollar is going to narrow and narrow and narrow. So the price is not going to have the 30% significance it now has, it is going to be 50% as that difference between 30¢ and a dollar is contracted.

One thing I would like to say that is really not of concern to this Commission is that the statement is made in The Daily Colonist that our gas rates in Greater Vancouver are higher than Seattle and Portland. Now, that is not so. They are not all precisely the same customer, so comparisons are not easy to make and should not be carelessly made. But I can say without equivocation that a fair comparison of our gas rates in Greater Vancouver would show that they compare with Portland, and with respect to Seattle are higher in one place and lower in another, and higher in another place and lower another. So I believe the only fair comparison to make would be that our gas rates are as near the same as is humanly possible for them to be as between Seattle and Vancouver, and a fair

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comparison could only lead to the conclusion that over all our natural gas rates in Vancouver are definitely lower than in Portland.

Thank you very much, Mr. Chairman.

MR. COMMISSIONER LADNER: Why is there so much difference in your investment per Mcf, \$5, compared with other companies, 80¢? I think you mean other eastern companies, do you?

MR. PURDY: No.

MR. COMMISSIONER LADNER: Quebec Natural Gas?

MR. PURDY: No, Quebec Natural Gas is going to be up higher too. I am thinking of the well-established companies that have been in business for a long time and are not in the developing stage that we are. Where we have got five customers, say, per mile, they have got fifteen. Now, we will get to that, and as we are getting to it -- we are getting to it day by day -- and as we do this investment of \$5 per Mcf sold will drop to 4 and will drop to 3 and will drop to 2. I am not sure that it will ever get down to the very low figure that you find in the cold climates.

THE DEPUTY CHAIRMAN: We thank you, Mr. Purdy. We will have these things in the transcript -- unless the Commissioners have something to ask.

MR. PATTILLO: Mr. Chairman, I have nothing to ask Mr. Purdy, and unless some of the Commissioners have something to ask, I move that we proceed to the



submission of Act Oils Limited.

Now, the brief of Act Oils Limited has been filed with the Board, and I am suggesting that it be given the exhibit No. V-24-1.

---EXHIBIT NO. V-24-1: Submission of Act Oils Limited.

Mr. Walter Owen, Q.C., of Vancouver, is appearing as counsel for Act Oils Limited. Mr. Owen, would you introduce the members of your group?

MR. OWEN: Mr. Chairman and gentlemen, I have with me today Mr. A. Digby Hunt, who is a geologist and is executive vice-president of Act Oils Limited, and a partner of mine, Mr. Fred Read.

Now, Mr. Chairman, copies of the brief have been filed with the Commission, and Mr. Hunt will read it. Before doing so, if I may, I should like to file two exhibits which I think, with some explanation from Mr. Hunt -- they are not in the brief, these two -- may make the whole matter more clear to the members of the Commission.

Would you like to swear Mr. Hunt now, Mr. Pattillo, and then I will put the exhibits in through him?

MR. PATTILLO: Well, I had not contemplated, Mr. Owen, that we would swear Mr. Hunt. We have only sworn the witnesses when we are dealing with a pipeline corporation that is in operation.

MR. OWEN: Very well.

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MR. PATTILLO: And I think probably, as I understand this, this has not yet developed to that stage, and therefore we will not ask Mr. Hunt to be sworn.

MR. OWEN: Thank you. Then I tender as an exhibit a map showing the property interests of Canada Southern Petroleum Limited in northeast British Columbia. Will that be assigned a number, Mr. Pattillo?

MR. PATTILLO: That will be assigned the number V-24-2.

---EXHIBIT NO. V-24-2: Map showing the property interests of Canada Southern Petroleum Limited in northeast British Columbia.

The next exhibit is the last annual report of Canada Southern Petroleum Limited which is for the calendar year 1956.

MR. PATTILLO: That will be marked V-24-3.

---EXHIBIT NO. V-24-3: Annual report of Canada Southern Petroleum Limited for the calendar year 1956.

MR. OWEN: Now, Mr. Hunt, would you be kind enough to explain the Exhibit V-24-2 to the Commission?



Take B
N/jt
24/4

MR. OWEN: Mr. Hunt, would you be good enough to explain Exhibit V-24-2 to the Commission?

MR. HUNT: Mr. Chairman, the purpose of submitting this map is to provide you with a background of the development and exploration in north-eastern British Columbia which led up to our making the application to build a crude oil pipeline from the Fort St. John district to Kitimat. You will note this map sets out the major interests of the various companies in the area. There are other companies with holdings, but they are usually smaller and they cannot be shown on this type of map.

The circles, for convenience only, as to area A, B, C, etc., were placed there in order to give you a brief summary, which is in the margin of the map, of the geology and activity.

I should mention that this map is as of November, 1957 and, of course, we have been through an active winter exploration season in British Columbia since that time.

One feature I would draw your attention to is the number of gas fields and single well gas discoveries which are concentrated, mainly, south of latitude 57; that is south of the middle part of the map. As you will note, these gas fields far exceed, at the present time, the number of oil fields. If you are not familiar with the

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1908-1909, 1910-1911, 1912-1913, 1914-1915, 1916-1917

1918-1919, 1920-1921, 1922-1923, 1924-1925, 1926-1927

1928-1929, 1930-1931, 1932-1933, 1934-1935, 1936-1937

1938-1939, 1940-1941, 1942-1943, 1944-1945, 1946-1947

1948-1949, 1950-1951, 1952-1953, 1954-1955, 1956-1957

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1968-1969, 1970-1971, 1972-1973, 1974-1975, 1976-1977

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2018-2019, 2020-2021, 2022-2023, 2024-2025

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2082-2083, 2084-2085, 2086-2087, 2088-2089

2090-2091, 2092-2093, 2094-2095, 2096-2097

2098-2099, 2100-2101, 2102-2103, 2104-2105

2106-2107, 2108-2109, 2110-2111, 2112-2113

2114-2115, 2116-2117, 2118-2119, 2120-2121



map, in fact, it may be a little hard to distinguish the oil fields.

The gas is shown as red and the oil as green.

Another feature brought out by this map, which will be discussed in the brief, is the fact that, to date, the majority of gas fields in northeastern British Columbia have been located on subsurface structures or folds and you will note the elongated shape of many of these fields, particularly in area C. We believe this has a significance with respect to the fact that there is a greater proportion of gas, at the moment, in northeastern British Columbia, than oil. It would appear that the majority of these structures have been located by seismic, core hole or surface geology and, normally, the first well drilled on any one structure will be placed on the highest point of the structure. If gas is present, this is the spot where gas will accumulate, and, as a result, we believe there may be oil on the flanks of some of this structure that has, as yet, not been found. This is instanced in area C. Against the Blueberry field there are two spots of oil and these two oil wells were found a considerable time after the initial discoveries and after several gas wells had been drilled.

The same applies in area B, at the



Buick Creek.

Oil was also discovered at Fort St. John fairly early in its history but, again, after gas had been discovered first.

What led us to make this application was the discovery, in land in which we hold an interest, of oil in the Boundary Lake area. That is in area D and the area is enlarged in the heavy black outline on the map. The first discovery was made north of our land by the Northern Foothills Agreement group but, subsequently, oil was discovered on our land to the south.

Now I would refer you to the other side of the map, which sets out, as of November, the principal oil and gas fields in northeastern British Columbia. This is the table on the right hand side and it deals with oil, gas, and the particular horizon from which the production is arrived at can be averaged.

The table on the left hand side of the map sets out in detail Canada Southern's properties in northeastern British Columbia. Act Oils Limited is a subsidiary or, at least, Canada Southern holds 50% of the interest in Act Oils Limited. Canso Oil Producers, an associated company, holds the other 50%.

MR. COMMISSIONER LADNER: Is there common interest between the two companies?



MR. HUNT: Yes. They hold 50% each.
There is a common interest.

You will note that Canada Southern is extremely well represented from the point of view of land holdings in northeastern British Columbia. We hold, at the moment, 884,000 acres net, under a gross acreage of just over $3\frac{1}{2}$ million acres. In addition, in an area which has not, as yet, received a large amount of exploratory activity, but which we anticipate will, we also hold 872,000 acres, approximately, net, in 1,163,000 gross acres in the Northwest Territories, immediately adjoining British Columbia to the north, and that is shown at the top of the reverse side of the map.

We believe that our holdings place us in a position that, as further oil is discovered, further oil and gas is discovered, we should share proportionately in those discoveries, and, as a result, will have disposable oil put through our pipeline.

I will just refer you back to the front side of the map, before finishing. The area which is receiving the largest amount of activity at the present time is located south of the 57th parallel, that is, south of the mid-portion of the map, and within that area Canada Southern holds approximately 30% of the gross acreage, which amounts to 10% of the net, and that actually places us well up in



the list of major land holders in that particular area.

Unless there are any comments, I propose to go now to the second Exhibit, the annual report, and the purpose of submitting this, if you will turn to page 17, "Notes to Financial Statement," the purpose of submitting this as an Exhibit is to show the relationship between Canada Southern Oils Limited, Canso Oil Producers Limited and Canso Natural Gas.

I will read the first paragraph:

"As of April 20, 1954, under a Plan of Reorganization, the assets, subject to the liabilities, of Canada Southern Oils, Ltd. were transferred to three new companies, Canada Southern Petroleum Ltd. (herein called the Company), Canso Natural Gas Ltd. and Canso Oil Producers Ltd. The primary obligation for the outstanding debentures of Canada Southern Oils, Ltd. in amount of \$3,739,000 was assumed by Canso Oil Producers Ltd. but the Company also remains liable."

Now, if you will turn to page 18, under Note No. 2, "Investments," this sets out the method whereby Act Oils was acquired by Canada Southern Petroleum. It reads:

"The assets of Act Oils Limited consist principally of petroleum and natural gas permits and licenses in British Columbia. These permits



and licenses are all in the exploratory and development stage and they have all been farmed out to others under arrangements whereby Act Oils Limited retains carried interests varying from 5% to 15%. The investment in Act Oils Limited was acquired from a group consisting of members of a Buckley family (two of whom are directors and officers of the Company) and related interests. The Buckley interests were assigned a 20% individed interest in certain of the properties of Act Oils. The investment in Act Oils Limited exceeded the equity in its net assets (including capitalized exploratory, development and other expenses) as shown by its financial statements at October 31, 1956 by \$261,927. The remaining 50% of the capital stock of Act Oils Limited is owned by Canso Oil Producers Limited."

Now, with your permission, I will read the brief.

THE DEPUTY CHAIRMAN: Very good, sir.

MR. HUNT: Introduction: It is the purpose of this Submission to bring to the attention of the Commission certain facts relating to the sources of energy in the form of crude oil in North-eastern British Columbia and the problems involved in the transmission of this oil to Canadian and export markets.

Act Oils Limited, a Company incorporated



under the laws of British Columbia and jointly owned by Canada Southern Petroleum Ltd. and Canso Oil Producers Ltd., companies incorporated under the laws of Canada, applied to the Government of British Columbia, on February 28, 1957, for leave under the provisions of the Pipe-lines Act, Statutes of British Columbia, 1955, ch. 60, and amendments, to construct a pipe-line situate wholly within the Province of British Columbia for the purpose of transporting crude oil from Boundary Lake and the Fort St. John district to Bella Coola or its vicinity; and in pursuance thereof has filed with the Honourable Lyle Wicks, Minister of Railways for the Province of British Columbia, a Letter of Intent respecting the construction of the proposed pipe-line.

In May of 1957, after preliminary engineering studies, the proposed terminal was changed from Bella Coola to Kitimat, together with a corresponding change in the location of the pipe-line route. It is considered that future exploration activity will develop sufficient crude oil reserves within Northeastern British Columbia to justify this project and that the logical and most economic outlet for such oil is via pipe-line to the nearest marine terminal.

General Geology: The sedimentary area of Northeastern British Columbia is located on the western side of the much larger Western Canadian sedimentary basin and has many features in common with the Alberta portion of the basin to the east



and southeast. However, the average thickness of sediments is greater, 11,000 feet, and structural features are more common. The total section increases rapidly in thickness from 7,000 feet in the northeast to over 20,000 feet in the south and southwest portion of the area. This rapid rate of thickening causes many beds to thin or 'wedge out' in a general northeasterly direction thus providing suitable traps for oil and gas. In addition, structural folds (anticlines) generally paralleling the foothills belt are found throughout the area, though the amplitude decreases with increase in distance from the foothills. The three factors, thick sediments, stratigraphic traps and structure, combine to provide numerous reservoirs suitable for the entrapment of oil and gas.

As you will note from the map, there are approximately 30 fields at the present time, although some of those fields are one-well fields.

There is also present in Northeastern British Columbia a narrow belt of foothills placed between the Rocky Mountains and the 'Plains' which is favorable for the accumulation of petroleum. The general geology of this belt is probably essentially similar to that in Alberta, though very few wells have been drilled in this belt.

Exploration Activity: It was not until 1949 that the petroleum industry as a whole



commenced continuous exploration for oil and gas in Northeastern British Columbia. Since that time, the rate of activity, as measured by gross expenditures and drilling, has increased yearly. However, at the end of 1957 only twelve wells had been drilled to a depth sufficient to test strata of Devonian age and of these only six had penetrated the entire sedimentary section.

From the point of view of oil discovery, that is an important fact. The largest proportion in Alberta are derived from beds of Devonian age and, as yet, in the whole of B. C., only twelve wells have been found in the Devonian, so it can hardly be said to have been tested.

By the end of 1957 a total of only 1,300,000 exploratory feet had been drilled in the whole of Northeastern British Columbia. (An exploratory well is considered to be one located two miles or more from a well already capable of production.) This total footage is only approximately half that drilled in Alberta prior to 1947, approximately equal to that drilled in Alberta in the single year 1950 and less than half that drilled in Alberta in the single year 1957. It is anticipated that exploration activity will continue to increase providing that markets can be established for the reserves found.



The limited amount of exploration undertaken in Northeastern British Columbia has resulted in the discovery of a relatively large volume of gas and gas condensate. Proven gas reserves at December 31, 1957, are given by the Canadian Petroleum Association as 1.8 trillion cubic feet and other sources have quoted figures up to 3 trillion. If the ratio of 6 Mcf of gas discovered to 1 barrel oil discovered as set out in the Canadian Petroleum Association brief to the Commission, and a proven gas reserve of 1.8 trillion cubic feet is used, there ought to be a crude oil reserve within Northeastern British Columbia of some 300 million barrels. Alternatively, for every exploratory foot drilled in Alberta, approximately 200 barrels of oil have been found. If this is applied to Northeastern British Columbia, at least 260 million barrels of oil should have been discovered.

The discrepancy between present proven and probable reserves in the Northeastern portion of British Columbia, which are given as less than 40 million barrels, and the above figures, indicates that the area cannot at present be compared statistically with other areas in Western Canada. This could be due to three main reasons: the area is geologically less favorable, the data are spread over too short a period of time, or exploration has been concentrated on the search for gas.



Northeastern British Columbia does not appear to be less favorable geologically and, in some aspects, there are distinct advantages, such as numerous structures and thick sediments. Certainly exploration has only been conducted over a short period of time and relatively little drilling has been done. This compares historically with the exploration history in Alberta prior to Leduc, where, with the exception of Turner Valley, the discovery of gas far exceeded the discovery of oil. Since there is an available market for gas and none for oil, it would appear that exploration has tended to concentrate on the search for gas.

That statement, none for oil, there was during 1957 about 1,000 barrels per day produced and used in the refinery at Dawson Creek and Grand Prairie.

Another influencing factor is the structural condition. Anticlines are relatively common and can be well defined by seismic methods. Locations for wildcats are usually placed on the highest point of a structure where gas, if present, will accumulate, and follow-up drilling has tended to be along the crest of the structure. There may be oil present lower on the flanks of the structure, but its presence will only be determined by later drilling. This type of development has already been instanced in two fields where oil has been found on



the flanks of the structure after several gas wells had been drilled along the crest. In both cases, insufficient development has followed to determine whether the oil or the gas will be the major reserve.

The question arises as to when there will be sufficient recoverable reserves available within Northeastern British Columbia to warrant the construction of an oil pipe-line from Fort St. John to Kitimat. The fact that the reserves will eventually be established appears to be accepted by several operators in the area, since other applications have been filed to construct crude oil pipe-lines between Fort St. John area and Pacific Ocean ports, though these were made some time after the original application by Act Oils Limited. If the known oil fields within the area were developed to the maximum extent as indicated by the latest geological evidence, a considerable reserve would be established, but it would still be insufficient for pipe-line requirements. If the figure obtained from Alberta of a discovery rate of 200 barrels per exploration foot is applied in Northeastern British Columbia, together with an assumed future rate of drilling activity, sufficient reserves should have been found by the end of 1959. Although, over a short period Northeastern British Columbia has not maintained the same rate of oil reserve increase in relation to drilling as Alberta, there is no evidence to



suggest this will not apply over a longer period. Neglecting footage already drilled and projecting drilling activity over the next ten years, it is probable that sufficient oil will have been found not later than 1963.

Again, this calculation is based on the rate of increase in Alberta against expected activity in British Columbia.

Additional liquid reserves in the form of gas condensate have already been established and will continue to increase. These reserves will be produced in relation to the rate of gas production and initially can be absorbed by local markets.

A final factor affecting the development of reserves is the discovery rate. Since the initiation of exploration in Northeastern British Columbia the ratio of successful wildcats for both oil and gas to total wildcats has been unusually high and in some years has averaged 50%. The overall average is in the order of 40% compared with 20% in Alberta.

I might add that discovery rate is quite phenomenal and, to my knowledge, has not been duplicated in many places throughout the world.

This high success ratio will undoubtedly decline to some extent in the future; but providing the ratio of oil discoveries to gas discoveries increases, it lends further support to the conclusion that sufficient oil will be available within two to



five years.

A large portion of Alberta falling north of Township 64 and west of the 5th meridian could also be economically serviced by the proposed pipeline. Present estimated reserves within this area are in the order of 200 million barrels. Although a proportion of these reserves is already connected to the Trans Mountain Pipe Line at Edson via the Peace River Pipe Line originating at Sturgeon Lake, it is expected that the rate of increase of reserves in this area will be higher than in Northeastern British Columbia for the next few years. This should result in a supply of oil being available for diversion to Kitimat, which could result in this pipeline becoming a reality sooner than anticipated.

The Pipe-Line: At the outset, it is emphasized that all estimates are based on preliminary engineering studies by Dutton-Williams Brothers Limited in which certain assumptions have had to be made. Two routes were investigated initially, both following a common location from Fort St. John through Pine Pass to Fort McLeod. From there one route followed to Bella Coola and the other to Kitimat.

I might refer you to the first map at the end of the brief.

Distance, construction costs, terrain and terminal facilities were compared, with the result



that the route to Kitimat was finally selected as being the most economical. The length of the line to Kitimat has been computed as 478 miles, with the elevation of the major passes traversed being only 3400 feet at Pine Pass and 3100 feet at Telkwa Pass. Tankage and terminal facilities can be constructed at Kitimat for a relatively low cost and would be adequate for docking and loading large ocean tankers. Such a route would have distinct economic advantages over a route from Fort St. John direct to Vancouver (approximately 700 miles) which would traverse higher passes and probably entail higher per mile construction costs.

It may be suggested that a route utilizing the existing right-of-way of another pipe-line or a railway could be built at less cost per mile. Certainly, no expense would be incurred in obtaining the right-of-way, but this would probably be more than offset, in the case of an existing gas pipe-line right-of-way, by the additional horsepower required to overcome the steeper gradients which do not affect gas lines to the same extent, and in the case of an existing railway right-of-way by the extra distance required to accommodate the gradient, by construction difficulties, and the safety factor.

The size of line will depend upon many variables, the most important of which are reserves,



deliverability, daily throughput and markets available. Line sizes ranging from 16 inches to 34 inches in diameter were studied in combination with various throughputs. As an example, the probable costs and economics of a 30-inch line are given here, though this is not necessarily the size of line that will actually be built.

Capital investment, including construction costs, three pump stations, storage and marine terminal would be in the order of 130 million dollars at today's prices. This would allow a daily throughput of 200,000 barrels, though the line could operate initially with one pump station on a daily throughput of only 100,000 barrels. The advantage of a line of this size would be that throughput could be increased by 150 to 200 thousand barrels daily with the addition of pump stations, and would obviate the necessity to loop for many years to come.

It has been the experience of many pipelines after installing the line they are almost immediately faced with the necessity of looping, say, within a very few years, and if a line of this size could be built, we feel sure this expensive undertaking would be unnecessary for many years.

A smaller line of 20" diameter could be installed which would handle 100,000 barrels daily, but future expansion would not be possible without



looping. Depending upon rate of return, rate of depreciation, throughput, ratio of equity to public financing and other factors the tariff per barrel for a 30" diameter line would probably fall between 25 and 30 cents, F.O.B. tanker at Kitimat.

Marine Transportation and Delivered Cost of Crude: Since it is proposed to deliver North-eastern British Columbia crude to Kitimat via pipeline, tanker transportation will be required to move the oil to Pacific coast markets. Tanker rates have been subject to large fluctuations in periods of emergency; but generally speaking tanker rates are within the range of U.S.M.C. minus 30 to minus 50. Based on current posted prices of sweet 35 degree API crude and allowing for gathering and handling charges, it should be possible to deliver crude originating at Kitimat to any port on the Pacific coast of North America at a price equal to, or lower than, any other source of crude, excluding continental United States and Alaska. This allows for a U.S.M.C. rate of minus 50 for Venezuelan or Persian Gulf crude and U.S.M.C. minus 30 for crude originating at Kitimat or Vancouver. The actual price differential at California would be in the order of 25 - 35 cents per barrel in favor of Kitimat crude in comparison with Venezuelan crude, and a small amount in comparison with Persian Gulf crude. Oil delivered at Vancouver marine terminal



via Trans Mountain Oil Pipe Line could today be delivered to California at a price competitive with other sources of foreign crude and probably at a distinct price advantage.

That statement is based on posted field prices and evidence has been given earlier, I believe, that posted field prices do not necessarily control the prices of crude.

Any increase in world tanker rates would work in favor of Canadian crude since the distance is much shorter.

Markets: A local market already exists in the Terrace-Kitimat area which, together with other population centres from Alaska to Port Hardy and the aluminum smelter demand for petroleum coke, would provide an outlet for the products of a refinery which could be established, that is at Kitimat. The pipe-line terminal and refinery would provide another basic industry for the area which at the moment is mainly dependent upon the smelter and lumber.

The natural and economic market for British Columbia and Alberta crude has always been on the Pacific coast of North America from Alaska to California. However, except in periods of emergency, the only areas served have been in Vancouver and Puget Sound. Even now a certain proportion of the Puget Sound market is being lost to other sources



of crude.

That statement is based on conversations with shipping concerns in Seattle who inform us that crude was being imported into the Puget Sound area by tanker and barge. However, I cannot offer any direct evidence of that fact.

In 1957 the Pacific Coast of North America, excluding Canada, imported an average of 200,000 barrels daily. Voluntary quotas in the United States may reduce this by a certain amount in the immediate future, but the Chase Manhattan Bank predicts that by 1965 imports will be required at the rate of 660,000 barrels daily, which, together with the expected British Columbia requirements, gives a total West Coast demand of approximately 800,000 barrels daily. In the interests of the Canadian economy as a whole and the oil industry in particular, it is imperative that a large proportion of this potential market should be provided with Alberta and British Columbia crude. Some refiners have shown a preference for crude from other sources for a variety of complex reasons, even though the price appears to be somewhat higher. However, it must be assumed that at a certain price differential in favor of Canadian crude, this preference can be overcome. It is suggested that crude oil can be made available at Kitimat, at a price and in sufficient quantity, to accomplish this objective.



All of which is respectfully submitted:
Act Oils Limited.

Mr. Chairman, with your permission I would like to direct your attention to the graph at the back of the submission.

First is a map showing the proposed route of the pipeline from Fort St. John to Kitimat. It is intended it should start, essentially, at the same place as the Westcoast Transmission line at Taylor and would follow on to Pine Pass to Fort McLeod.

MR. COMMISSIONER LADNER: Is that a surveyed road yet?

MR. HUNT: No, we have surveyed it by means of aerial photos but not on the ground.

It would pass from Fort St. John to Walcott and then on to Terrace and through Telkwa Pass. Telkwa Pass is between Walcott and Terrace and is not shown on the map. Actually, the existence of that pass contributes in a great way to making this project economically feasible. From Terrace it goes through the wide valley south to Kitimat.

I might just add that the marine facilities that have been installed at Kitimat could be done for a low cost; all inlets on the west coast of British Columbia are comparable with fjords. In other words, they are extremely deep right up to



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the edge and only a minimum amount of construction would be required to take the largest ocean-going tankers.



MR. COMMISSIONER LADNER: Is there a market at Kitimat itself?

MR. HUNT: Kitimat itself has a population of approximately 12,000 at the moment, and Terrace, which is 40 miles to the north, has roughly 4,000, so there would be that local population. The important market at Kitimat would be the petroleum coke which is required by the aluminum smelter which is now imported and would be provided at a very economic rate.

The second graph shows the cumulative exploration footage drilled in Alberta and compares it with that drilled in British Columbia. You will note that prior to 1947 the rate of increase was slow, and, of course, after 1947 the Alberta curve steepens considerably, and the British Columbia curve which you will note is only just a little bit higher than the curve in 1940 for Alberta, but there will be a trend to increase in British Columbia as well as the exhibits show.

In the next graph we show on a larger scale the past exploration activity. It is not cumulative but by years, and projected exploration activity over the next few years, using that graph as a basis for study when there will be sufficient reserves in British Columbia.

The next graph shows the cumulative original recoverable reserves in Alberta, and I



would draw your attention to the fact that from the years 1939 to 1946 only approximately, I believe, 3 million barrels of oil were added to the Alberta reserves, although a considerable amount of drilling was done. In other words, over the short period the statistics that we are presenting do not necessarily apply.

The next graph shows the total number of exploratory wells drilled within British Columbia, that is cumulative, and the cumulative number of discoveries. As I mentioned before, that ratio of high percentage of discoveries of total exploratory wells is extremely high.

The next graph shows the rapid fluctuations in average tanker rates. These are spot tanker rates, of course. There are two peaks, the first one in the beginning of 1951 to early 1952, the Korean War, and the second one late 1956 to early 1957 was the Suez crisis.

The next graph shows the total oil moved from Alberta to Vancouver or the international boundary at Sumas in average barrels per day and the exports from Vancouver. As you will notice, the exports have declined considerably since the latter part of 1957.

Finally, the last graph. This is -- I am afraid it is not acknowledged, it is taken from the Chase Manhattan Bank, showing the anticipated



west coast demand for crude oil and the anticipated fall-off in original indigenous supply from California and the demand that will be taken up by importing.

MR. COMMISSIONER LADNER: By way of explanation, I was wondering if there were graphs in the past. For example, the graph showing the number of exploratory wells and discoveries. If someone in 1952 had drawn a graph to what they expected in 1957, would it compare favourably with what resulted?

MR. HUNT: I think if someone had drawn in 1952 it would have been less optimistic than was actually realized by 1957.

MR. COMMISSIONER LADNER: That is interesting.

THE DEPUTY CHAIRMAN: Mr. Pattillo, would you rather proceed now or break?

MR. PATTILLO: Mr. Chairman, I suggest we have a few minutes' break now, and Mr. Patterson is going to examine Mr. Hunt.

MR. OWEN: Mr. Chairman, there was just one question, if I may get it into the record so that it will be for consideration, or if I may make a statement and Mr. Hunt could correct it. There may be some question as to why the application for this pipeline was made in the name of Act Oils Limited. The reason was that the charter of Act Oils Limited had specific provision in it empowering



it to construct and operate a pipeline, so that one of the incorporations was used for the purpose, but the parent companies are, of course, for all purposes, behind this application.

That is correct, Mr. Hunt?

MR. HUNT: Yes.

THE DEPUTY CHAIRMAN: We will now have a ten-minute break.

---A short recess.

THE DEPUTY CHAIRMAN: Mr. Patterson.

MR. PATTERSON: Mr. Owen advises me, Mr. Chairman, that there is one comment he would like to make.

MR. OWEN: If I may, Mr. Chairman. It is this, that while our company pioneered this proposal and was in well ahead of all others, we realized that there were other companies with large holdings in the same area from which we will gather the oil, and in our submission to the Provincial Government we made the statement, which stands today, that we invited all the other large holders of lands in that area to participate with us if they wished. In other words, we were prepared to take our percentage interest in accordance with our land holdings or to take it all, but we gave that choice to our co-holders of lands in the area, and that offer still stands,



Mr. Chairman.

MR. PATTERSON: Sir, one bit of explanation for us. In the graph of average "paid" tanker rates (dirty) -- I understand that is not a comment on the ship's condition. Would you explain to us what that term means?

MR. HUNT: Yes. Tankers, when they are moving crude oil, are usually referred to as "dirty" in opposition to their state when they are moving products which, of course, should not be allowed to suffer any colour contamination, and tanker rates are always below the clean rates because of the additional expense of cleaning the tankers.

MR. PATTERSON: Now, in presenting this pipeline project, can you give us an idea of how long you think it will be before the Act Oils plan becomes a reality?

MR. HUNT: I would place it between the end of 1959, which is the earliest we can anticipate sufficient reserves, and 1963, which we believe, based on present forecasts of activity, will be the latest when sufficient reserves will be available. However, we are now investigating exactly how far into Alberta we can gather oil on, and, as you know, the activity in Alberta is quite considerable in that area, so it might be even earlier than that.



MR. PATTERSON: What reason would you give for not joining up the northeast British Columbia area to the Trans Mountain line?

MR. HUNT: At present the Trans Mountain line joins as far north as Sturgeon Lake. The tariff for that Peace River line from Sturgeon is 25¢ which, of course, has to be added to the 40¢ tariff from Edsom to Burnaby, which makes quite a large tariff of 65¢. For instance, when we join Boundary Lake to Sturgeon Lake to Edsom, I don't know what the tariff would be, but let's say it would be 15¢ to 20¢. That would place the Boundary Lake at a distinct disadvantage in Vancouver, and we can take it from Boundary Lake to Kitimat to Vancouver at a considerably cheaper cost.

MR. PATTERSON: Have you found anyone who is interested in putting a refinery at Kitimat?

MR. HUNT: No. We haven't tried.

MR. PATTERSON: Have you any ideas of what capacity might be at Kitimat to serve that area and what other areas would be within reasonable reach?

MR. HUNT: If the aluminum smelter expanded to its anticipated size by 1965 there would be immediately available a market for 150,000 tons of petroleum coke per year. There would be the ore ships to be fueled, and, of course, the domestic and other uses for refined products. On that basis



we would estimate between 20,000 and 30,000 barrels a day.

MR. PATTERSON: Your petroleum coke is an end product of the refinery.

MR. HUNT: Yes.

MR. PATTERSON: So your project then for the refinery is not to sell its petroleum coke, because it has a built-in market for that, but where do you find the rest of the refined products go?

MR. HUNT: Of course, Kitimat is a favourable place for serving many of the Pacific Ocean's small communities, particularly when you go up to Alaska. So we can anticipate quite a large market up and down the coast for refined products.

MR. PATTERSON: It would be fair to say this, that you haven't conducted a detailed economic survey of that market.

MR. HUNT: No.

MR. PATTERSON: Now, could you break down for me between marine loading and pipeline transmission costs the figure of 25¢ to 35¢ that you give on page 7?

MR. HUNT: Yes. The actual pipeline tariff itself would be approximately 24¢. There would be approximately 1¢ charge for tankage at Taylor or the main gate to the pipeline, and approximately 2¢ for tankage storage at Kitimat and approximately



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2¢ for marine handling.

MR. PATTERSON: And in that case you have
a fairly detailed survey.

MR. HUNT: Yes.



MR. PATTERSON: What was the date of the original application by Act Oils that is mentioned on page 4?

MR. HUNT: The 28th of February, 1957.

MR. PATTERSON: You mentioned, I think -- perhaps you gave some explanation for this statement:

"Oil delivered at Vancouver marine terminal via Trans Mountain Oil Pipe Line could today be delivered to California at a price competitive with other sources of foreign crude and probably at a distinct price advantage."

Do I understand you to say that that is not based on the factors of integrated oil companies and long-term contracts; you are simply basing that on a posted price and on the U.S.M.C. tanker rates presently existing?

MR. HUNT: That is correct.

MR. PATTERSON: And the other factors that apparently are giving difficulty in the United States are not taken into account here?

MR. HUNT: That is so.

MR. PATTERSON: Now, on page 9 you mention:

"Some refiners have shown a preference for crude from other sources for a variety of complex reasons, even though the price appears to be somewhat higher."

Are those reasons much the ones that I have mentioned,



the reasons of integrated oil companies having interests in other countries and long-term tanker rates?

MR. HUNT: That is correct.

MR. PATTERSON: Now, sir, in the formula you have used in projecting reserves in Northeast British Columbia, you have applied a formula of an average barrel of oil per 6 Mcf of gas. Is that not the formula that was worked out for the plains areas of the Western Canada sedimentary basin?

MR. HUNT: Yes.

MR. PATTERSON: And is it not fairly true that, in exploration in Alberta, in the foothills area or near-foothills area, the gas-oil ratio is rather higher than that?

MR. HUNT: Yes, I believe that would be correct. It would depend upon whether you consider Northeastern British Columbia as a plains area, or plains area near the foothills, and we have certainly considered it as a normal plains area.

MR. PATTERSON: So that in assessing the validity of the projection, there is a fair realm in the projection that, perhaps, this is a little too optimistic, if the problems of the foothills applied in Northeast British Columbia?

MR. HUNT: Well, of course, in dealing with statistics, it is very difficult to be specific without long explanations; but you will note that we have taken 1.8 trillion cubic feet which is away



on the lower end of the scale. I think we would be justified in saying that taking 2.5 cubic feet ---

MR. PATTERSON: As the present?

MR. HUNT: As the present, and we could then up the 6 Mcf to a higher figure.

MR. PATTERSON: In the plains has the situation not been that there has not been a great deal of follow-up drilling for gas, whereas, in Northeast B.C. there has been, by reason of the Westcoast pipeline?

MR. HUNT: Yes, I think that would be a fair statement but, if we bring it back to the number of gas wells discovered in ratio to the number of oils, not actual volume but just numbers of wells, the gas is still well in excess of the oil.

MR. PATTERSON: In other words, you would say, again, you have made a sufficient allowance in this projection for the fact that I have just discussed?

MR. HUNT: Yes.

MR. PATTERSON: That is all, thank you.

MR. OWEN: Mr. Chairman, as a result of one question and answer in the last exchange, I would like to say something about the matter of, perhaps, gathering some of our supplies from Alberta. Act Oils, of course, its application before the Provincial Government at the present time, is based upon activity wholly within the Province but, having in mind what Mr.



Hunt said, the company is now engaged in negotiations for the acquisition and has almost completed arrangements to acquire a company which has been incorporated pursuant to the provisions of the Pipe Lines Act of the Dominion, which will, if we succeed in that, give us the power to operate interprovincially and will change the character of our application, as it is at present, before the Provincial Government.

I just thought I should put that thought on the record here, to clear up any misunderstanding.

THE DEPUTY CHAIRMAN: Thank you. Are there any questions from members of the Commission? Dr. Hardy?

MR. COMMISSIONER HARDY: Mr. Chairman, I would like to ask Mr. Hunt a question on the order of promotion of this thing.

Aren't you following a somewhat different procedure than has been followed with all the other major pipelines in the West? They were organized or promoted and financed after an assured oil supply was in existence. You are following the opposite procedure, is that not right?

MR. HUNT: Yes, sir.

MR. COMMISSIONER HARDY: Promoting the pipeline without an assured source ---

MR. HUNT: I think it was doubtful here, when the initial steps were taken to form Trans



Mountain, there were sufficient reserves to fully justify the project, and I believe that was based on the industrial growth of reserves. We, perhaps, have initiated our project a little earlier than that but, based on the anticipated increase in reserves in the area in which we propose to serve.

MR. COMMISSIONER HARDY: Well, are you anticipating that if you had a permit for the pipeline that that would have any influence on the rate at which exploration would go on in Northeastern B.C. and Alberta?

MR. HUNT: I believe it would have a very definite and marked effect. Of course, in Northeastern British Columbia many of the areas can only be worked during the winter but, should we receive permission to build during the summer, I believe there will be a marked increase.

Another point is that the Boundary Lake field, for instance, which is partially developed, the development to date indicates it could be a field of major proportions, but the capital investment required to develop it to its fullest extent probably cannot reasonably be invested until there is some hope of a more definite outlet.

MR. COMMISSIONER HARDY: In the event that you became an interprovincial pipeline, I am a bit puzzled as to how you could expect to get an interprovincial permit at this stage without the Dominion



authorities knowing just what your marketing plans are going to be, and you cannot do that until you have some more oil.

MR. HUNT: We are certainly faced with the proposition of which comes first, the chicken or the egg, and we are trying to develop the two along parallel paths, and immediately we have sufficient oil we will then be in a position, we hope, to secure the markets.

We are presently having a detailed market survey undertaken and we will acquaint all buyers with our project and inform them that, as soon as we have the backing of sufficient reserves, we will be able to enter into more detailed negotiations.

MR. COMMISSIONER HARDY: Thank you very much, Mr. Chairman.

THE DEPUTY CHAIRMAN: Dr. Howland? Mr. Ladner?

MR. COMMISSIONER LADNER: Mr. Hunt, you understand the reserves now attributable to the proposed pipeline amount to about 1.8 trillion?

MR. HUNT: No, sir. Those are the gas reserves.

MR. COMMISSIONER LADNER: Those are the gas reserves?

MR. HUNT: Yes.

MR. COMMISSIONER LADNER: What about the oil?

MR. HUNT: They are quoted at less than 40



million barrels in British Columbia.

MR. COMMISSIONER LADNER: How much reserve would be necessary to justify such a pipeline?

MR. HUNT: It would depend upon the size and the throughput -- in other words, on the market.

MR. COMMISSIONER LADNER: Suppose you had a 30-inch pipe?

MR. HUNT: For a 30-inch pipe you would need 400 million barrels to justify it, although you could proceed, initially, on less than that.

MR. COMMISSIONER LADNER: Would that pipeline be able to connect with your other available oil from Alberta?

MR. HUNT: Oh, yes.

MR. COMMISSIONER LADNER: About what proportion would that be, that field in Alberta?

MR. HUNT: We would be, economically, down to Township 64 or Sturgeon Lake, so if we could, we could even connect to Sturgeon Lake and still deliver oil to Vancouver and the west coast of Canada at a competitive price, and we could go eastwards, probably, as far as the fifth meridian.

We are investigating that in further detail. We might even be able to economically tie into those latest discoveries at Virginia Hills and Edith Lake.

MR. COMMISSIONER LADNER: Do your available geological and other reports indicate oil in those areas you are referring to that would create



a reserve?

MR. HUNT: Oh, yes. The reserve in Alberta, in the area which we could economically serve, is very close to the required amount to justify this line.

MR. COMMISSIONER LADNER: Thank you.

THE DEPUTY CHAIRMAN: Dr. Britnell?

Mr. Hunt, we thank you very much, you and your colleagues, for presenting this brief. I am sure it will be of great assistance to the members of the Commission, because, as you know, we have a hard job still in front of us.

Now, gentlemen, before adjourning the Victoria hearings, I would like to say a few words of appreciation concerning the pleasant stay that the Commission has had in this capital city. I say this on behalf of the Chairman, my fellow Commissioners and myself. First of all, we are sorry that our visit to this city has had to be so short. I am not suggesting that the Commissioners were anxious to hold even more public hearings and to listen to more submissions. The quality of the submissions in Victoria has been very high and we appreciate the fine work which went into them.

In saying that we would like to have stayed longer, I mean that it would have been nice to have had enough time to see more of this beautiful city and island. In fact, it would be pleasant to be able



to stay long enough to join with the rest of the male population and grow a centennial beard. Unfortunately, the Commission has to leave for Calgary, where another round of public hearings will commence next Tuesday morning.

Before leaving, however, I know that all of us want to say "thank you" to all those who have made us so welcome in Victoria, especially the Government of the Province of British Columbia, which gave us a very warm welcome the other day and has given us so much warm hospitality.

We are glad to be here in the year of your centennial. You have built a wonderful Province during those years and it has been a great pleasure to all of us on the Commission to be here to witness your growth and look, with you, into the promising future.

In Montreal, I sit on a Board with a man by the name of Mr. Patenaud, who used to be Lieutenant-Governor of the Province. He is 83 years old and, for the last 5 years, he has been telling us, very often, "You will see, in 100 years, Vancouver will be the largest city in Canada and British Columbia will be the richest."

After listening to Mr. Ladner, when we were in Calgary, knowing he was from this Province, and putting together the words of Mr. Patenaud and Mr. Ladner, I think they were right, and they are



right.

We expect that the business of the Commission will give us an opportunity of visiting British Columbia later in the year. We will all look forward, therefore, to being in your fair Province again.

The present hearings are now adjourned.

MR. OWEN: Mr. Chairman, I think, perhaps, somebody should say, on behalf of this great Province of British Columbia and this beautiful capital city of ours, how much we appreciate the Commission attending here and taking time out from your otherwise busy lives to look into some of these problems which are so close to our hearts and minds and pocketbooks in British Columbia, and we do thank you, sir, and your colleagues, especially, for the very kind and courteous attention you have paid to what we have had to say. We hope what we have had to say will be of assistance to you and I do want to say, too, in passing, and without forgetting it, that Commission Counsel and the Secretary to the Commission have been very helpful, at least to me and, I presume, to all others who had business coming before the Commission, and they must be of great assistance to you, because it does promote and provoke better work from those of us who are privileged to appear before you when your officers do their homework so well.

THE DEPUTY CHAIRMAN: Thank you.

---Whereupon the hearing adjourned at 11.40 a.m., to be resumed, in Calgary, Alberta, at 10.00 a.m., Tuesday, April 29, 1958.

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